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SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

THE TAX TREATMENT OF CO-OPERATIVES AND THE ECONOMIC EFFECTS OF THEIR PRESENT TAX-FAVORED STATUS

Robert T. Patterson, M.A., Ph.D.
Economic Consultant to
The Equitable Income Tax Foundation

TORONTO, Ontario

JANUARY 23, 1964

THE EQUITABLE INCOME TAX FOUNDATION

SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

Presented By

ROBERT T. PATTERSON, M.A., Ph.D.

TORONTO, Ontario JANUARY 23, 1964

SUMMARY

Co-operatives, although they are corporations, are to a large extent exempt from the corporation income tax; and all newly established co-operatives are entirely exempted from the tax for three years. Certain provisions of the Canadian Income Tax Act enable co-operatives to avoid a large part of the tax by permitting them, subject to certain restrictions, to deduct from their income the patronage dividends that they pay or allocate to their members.

Although a reduction in the corporation income tax would reduce the advantage now enjoyed by the tax-favored co-operatives, and the elimination of that tax would remove the advantage, the solution of this problem of tax inequality should not wait upon a major revision of the tax system, if that revision is to be delayed. In the meantime some other solution must be sought.

Co-operatives earn the same kind of income as that earned by the fully taxed business corporations. The particular way in which the owner-patrons of a cooperative share in that income does not change the fact that the income is produced through the same processes of value creating and bargaining that produce income for other businesses. The owner-patrons of a co-operative provide the equity capital and assume the risks of the business. Thus, they are just as much investors in a profit-motivated corporate business as are the shareholders in an ordinary corporation.

THE EQUITABLE INCOME TAX FOUNDATION

S U B M I S S I O N

to the

ONTARIO COMMITTEE ON TAXATION

Presented by

ROBERT T. FAIRCHILD, M.A., LL.B.

TORONTO, Ontario JANUARY 29, 1964

S U M M A R Y

The present tax privilege of co-operatives is not in the public interest, because it is inequitable and uneconomic. It is inequitable both because it discriminates between two essentially similar sources of revenue and because it results in an unwarranted competitive advantage for the co-operative corporations.

Large tax savings permit many co-operatives to expand far more rapidly than they could if their tax burden were equal to that of their ordinary corporate competitors; and tax free income has enabled co-operatives, in numerous instances, to buy out their ordinary corporate competitors. Often the co-operatives can afford to pay more for such businesses than the businesses are worth to their owners, because when a rival business is acquired and becomes part of a co-operative, its earnings become to a large extent free of tax.

The tax privilege now accorded co-operatives is uneconomic because it causes a poorer allocation of the Nation's resources than would otherwise occur. The competitive advantage resulting from that privilege is conducive to some degree of monopoly power for many co-operatives, and the aid to survival that the privilege provides for inefficient co-operatives distorts the flow of resources from their best uses. An established principle in economics is that the freer markets are from monopolistic and other restraining and distorting influences, that is, the more fairly competitive the economic system is, the closer the economy will be to the most economical use of its capital and manpower.

The subsidy that the tax advantage gives to practically all co-operatives (except those that have no earnings at all and so would not be subject to an income tax) permits many of the inefficient and uneconomically operated ones to survive when otherwise they could not do so; and it permits the more efficient

Summary (2)

co-operatives to expand their operations beyond what would be a point of insufficient return if their earnings from that expansion were fully subject to tax.

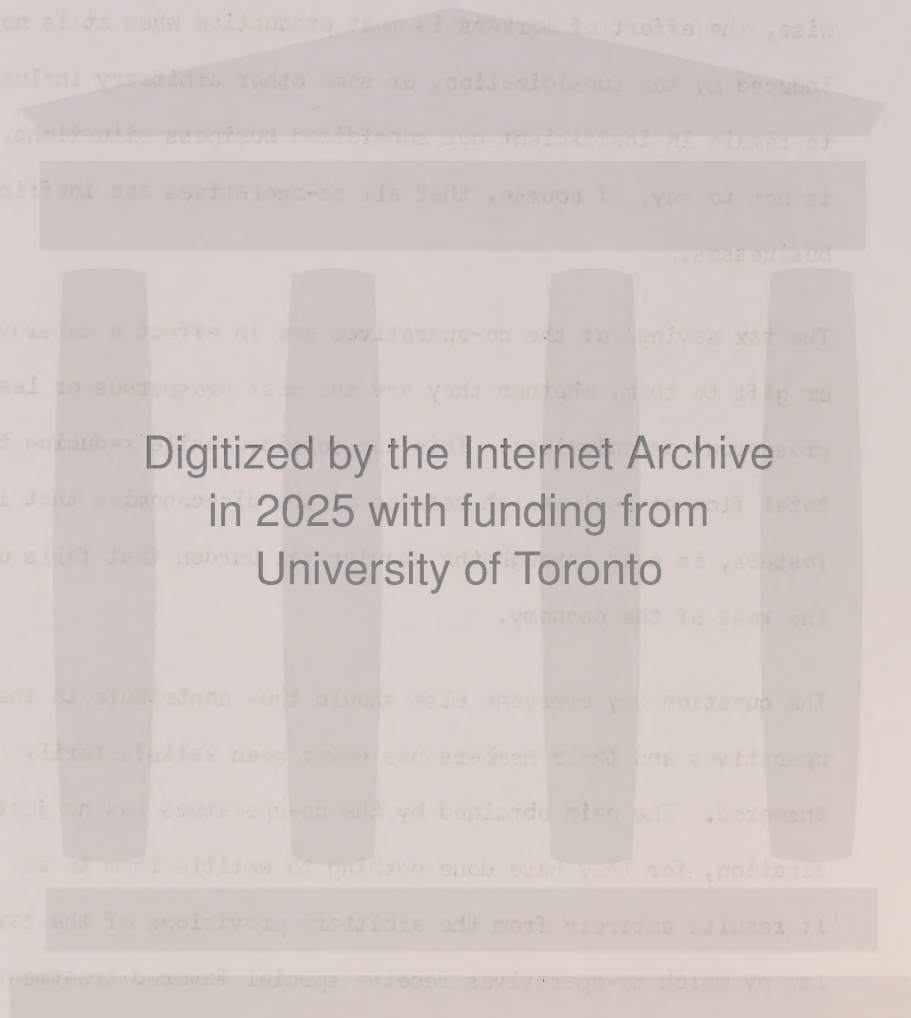
Only when the use of capital is not distorted by some obstacle such as tax favoritism can the highest possible level of productivity for the Nation's capital resources be achieved. Likewise, the effort of workers is most productive when it is not induced by tax subsidization, or some other arbitrary influence, to remain in inefficient but subsidized business situations. This is not to say, of course, that all co-operatives are inefficient businesses.

The tax savings of the co-operatives are in effect a subsidy or gift to them, whether they are the most prosperous or least prosperous associations. This tax subsidy, while reducing the total flow of real wealth because of the diseconomies that it fosters, is paid through the heavier tax burden that falls upon the rest of the economy.

The question why everyone else should thus contribute to the co-operatives and their members has never been satisfactorily answered. The gain obtained by the co-operators has no justification, for they have done nothing to entitle them to it. It results entirely from the arbitrary provisions of the tax law by which co-operatives receive special favored treatment.

Although there is no accurate way of determining the amount of revenue lost to the Government because of this tax privilege, a reasonable estimate would appear to be at least $25 million. The addition of such an amount to the Government's receipts would lessen somewhat the overall tax burden.

This tax advantage, which has been accorded the co-operative form of business organizations for many years, undoubtedly has greatly advanced the co-operative movement, which some individuals believe



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will result finally in a co-operative State and a co-operative world. In the co-operative State the individual would be subservient to it in every aspect of his economic life. As a consumer he could buy only what the co-operative authorities thought good for him. As worker and investor he would have no choice but to serve the great national co-operative. Other implications for human freedom would be the same that obtain under any system of collectivism. It would seem, however, that only under the most favorable and artificial circumstances, including grossly inequitable tax favoritism, could such an economic system come about.

But how can it be proper public policy to favor by means of discriminatory taxation the establishment, growth, and expansion of co-operatives if they are not a superior form of business? Or if it could be shown that they are superior, why should they have favored tax treatment or any other special privilege rendered by government? The answer is plain: without subsidy of any kind, each co-operative should find its rightful place in a free economy in the same way that other unfavored businesses must. The whole Nation would be better off. Its capacity to produce would be used more fully and effectively.

There is, and always has been a place for the co-operatives in a free economy. How extensive the co-operative form of business may become, and what part of the Nation's total business will be transacted by it, ought to depend solely upon the co-operatives' unsubsidized ability to serve the public economically.

To bring about tax equality for co-operatives and their ordinary corporate competitors the Income Tax Act should be amended so as (1) to require co-operatives to pay the corporation income tax without allowance for any deduction of patronage dividends and (2) to require the taxation of patronage dividends to the recipients in the same way that the dividends of ordinary corporations are taxed to their recipients.

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SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

THE TAX TREATMENT OF CO-OPERATIVES AND THE ECONOMIC EFFECTS OF THEIR PRESENT TAX-FAVORED STATUS

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SUBMISSION

to the

ROYAL COMMISSION ON TAXATION

by

Robert T. Patterson, M.A., Ph.D.

Economic Consultant

to

THE EQUITABLE INCOME TAX FOUNDATION

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1. INTRODUCTORY STATEMENT

1.1 The undersigned is an economist on the staff of the American Institute for Economic Research, Great Barrington, Massachusetts, U.S.A. This Submission, presented to your Commission at the request of The Equitable Income Tax Foundation, was prepared by him in an individual capacity separate from his duties at the Institute.

1.2 During the past decade he has studied the problem dealt with here, and has discussed its various aspects in a book, articles, and Congressional testimony.[1] His study was at first concerned with the income tax status of co-operatives in the United States, but has been more recently concerned also with the income tax status of Canadian co-operatives, the problem being essentially the same in both countries. Throughout this Submission, wherever

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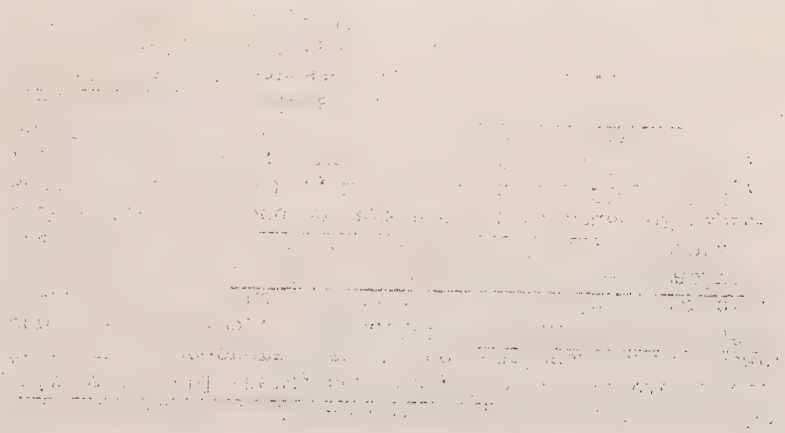
[1] The Tax Exemption of Co-operatives, 2d (Revised) edition (University Publishers, New York, 1960). Article on the taxation of co-operatives in the Washington Sunday Star, September 18, 1955. "Competition and the Taxation of Co-operatives," The Commercial and Financial Chronicle, January 19, 1956. "The Tax Exemption of Co-operative Associations," in General Revenue Revision, Hearings before the Committee on Ways and Means, House of Representatives, 85th Cong., 2d Sess., January 21-30, 1958, Part 2 (Washington: Government Printing Office, 1958), pp 1598-1604). Statement on the Tax Treatment of Co-operatives, Hearings before the Committee on Ways and Means, House of Representatives, 86th Cong., 2d Sess., February 1-5, 1960 (Washington: Government Printing Office, 1960), pp. 93-115.



it has seemed appropriate to draw upon past studies in order to further the analysis, he has done so.

1.3 Until last March, when the undersigned was asked by the Equitable Income Tax Foundation to prepare a Submission to be presented to your Commission, he had not had the privilege of knowing anyone connected with the Foundation. The conclusions developed in this Submission, although substantially in accord with the position of the Foundation, were arrived at independently and long before he had any reason to suppose that he should have the honor of offering them for your Commission's consideration.

1.4 The Submission is responsive to the following sections of the Commission's terms of reference:

(i) the distribution of burdens among the taxpayers resulting from existing rates, exemptions, reliefs and allowances provided in the corporation income tax;

(ii) provisions in existing laws which may have given rise over the years to anomalies or inequities or which may require action to close loopholes which permit the use of devices to avoid fair taxation;

(iii) the changes that may be made to achieve greater clarity, simplicity and effectiveness in the tax laws or their administration.

1.5 Conclusions

(i) Under Sections 73 and 75 of the Income Tax Act, co-operative business corporations can and do escape a large part of the tax that

falls upon other business corporations.

(ii) Although spokesmen for the co-operatives have formulated doctrines and devised special terminology in an attempt to justify their organizations' tax-favored status, the incontrovertible fact remains that the co-operatives are business corporations earning the same kind of income as that of the fully taxed ordinary corporations.

(iii) Co-operatives are not eleemosynary associations, nor are they partnerships or agencies. They are corporate business enterprises seeking gain for their members.

(iv) The marked tax discrimination favoring co-operatives cannot be shown to be in the public interest, because it leads to less than the fullest use of the Nation's resources.

(v) The co-operatives' tax advantage could conceivably be the opening wedge for a collectivist society, in which the form of business organization would be predominantly or exclusively co-operative, with all the adverse implications for economic freedom that are inherent in centralized, over-all direction and control of economic processes.

(vi) The loss of revenue to the Government, due to this tax discrimination, although of less importance than the resulting inequities and diseconomies, should be taken into consideration.

(vii) The discrimination is inequitable not only because it taxes heavily one form of business corporation while taxing lightly another, but also because the whole tax burden is thereby made somewhat heavier for all who have to bear it.

(viii) The present high rates of the corporation income tax have intensified the effects of the discrimination both by making co-operative membership highly advantageous in many instances, and by allowing, through retained earnings lightly taxed, a more rapid expansion of co-operative enterprise than is economically justified.

(ix) The greater profitability and the competitive advantage of co-operatives, due to their favored tax status, have been a strong inducement for some ordinary corporations to sell out to their co-operative rivals or to transform themselves into co-operatives.

(x) The tax advantage has given some co-operatives the power to destroy or absorb their heavily taxed competitors, even when the latter may be more efficient businesses.

(xi) Under conditions of tax equality, the co-operative corporations would pay the full corporation income tax without allowance for any deduction of patronage dividends, and patronage dividends would be taxed to the recipients in the same way that the dividends of ordinary corporations are taxed to their recipients.

(xii) The problems arising from tax provisions that grossly favor the co-operatives can be solved by legislation that would place co-operatives and their members on the same basis as ordinary corporations and their stockholders with respect to the income tax.

1.6 Recommendations

(i) That Section 73 (1) of the Income Tax Act, which provides full exemption from the income tax for three years for newly-formed co-operatives, be repealed;

(ii) That Section 75 of the Income Tax Act be so amended that patronage dividends, whether of co-operatives or of ordinary corporations, no longer be deductible in computing taxable income;

(iii) That patronage dividends be taxed to the recipients in the same way that the dividends of ordinary corporations are taxed to the recipients, and that whatever deduction or credit is allowed for either kind of dividend be allowed for the other.

1.7 The Submission is developed in accordance with the following outline:

1. Introductory Statement
2. Broader Aspects of Taxation
   - A. Preliminary Considerations
   - B. Economic Effects of the Personal Income Tax
   - C. Economic Effects of the Corporation Income Tax
   - D. Some Generalizations

3. The Problem of Co-operative Tax Privilege and Its Setting

4. How Spokesmen for the Co-operatives have Sought to Justify the Tax Advantage

   A. The "Infant Form of Business Organization" Argument

   B. Semantic Confusion: Synthetic Words and Phrases and the Specialized Use of the Term "Co-operative"

   C. Four Theories of Exclusion

      1. The Partnership Theory

      2. The Price-Adjustment Theory

      3. The Agency Theory

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5. The Controlling Fact: Co-operatives have the Same Kind of Income as that of Business Corporations which are Fully Subject to the Income Tax.

   A. The Nature of Business Income

   B. How Co-operatives obtain Income

   C. Capital as a Source of Co-operatives' Income

   D. The Member-Patrons of a Co-operative are "Owner-Enterprisers of a Profit-Seeking Business"

   E. The Problem of Determining Co-operatives' Income

   F. Net Margins as Income

   G. A Practicable Solution of the Problem

   H. The "Pricing-Out" Question

6. The Tax Privilege Accorded Co-operatives is Inequitable and Uneconomic, and It Deprives the Government of Needed Revenue
   - A. The Privilege is Inequitable
   - B. The Privilege is Uneconomic
   - C. The Privilege Deprives the Government of Needed Revenue
7. The Co-operatives' Tax Advantage Promotes the Development of a Co-operative State
8. The Place of Co-operatives in a Free-Enterprise System
9. Conclusions
10. Recommendations.

All of which is respectfully submitted

Robert T. Patterson

2. BROADER ASPECTS OF TAXATION

2-A. Preliminary Considerations

2.1 Although this Submission deals primarily with the privileged tax treatment, under the Income Tax Act, of one particular kind of corporation, namely, the co-operative business association, it seems advisable at the outset to indicate the framework within which that type of corporate business is largely tax exempt. However, doing so does not require a survey of the Canadian tax system, nor need it involve a discussion of fiscal and monetary policies and the various theories of Government finance that those policies at various times have reflected.

2.2 To avoid confusion, and to clear the way for the analysis developed throughout this Submission, we shall assume that the Federal Government, over a reasonable period of time, intends to balance expenditures with revenues and that the banking system pursues money-credit policies that are essentially sound, that is, non-inflationary. Let us postulate also that a high rate of economic growth and the increasingly higher standard of living that it would provide are desirable goals, and that any measures consonant with freedom that are within the purview of the Government (including suitable revision of the tax laws) and that would lead to these goals are likewise desirable. Suffice it to say here that a reasonably high rate of economic growth would go far toward solving the problem of unemployment.

2.3 If a tax system is highly complex, as the present system is, there are likely to be large inequities and substantial diseconomies resulting from certain of the taxes. Perhaps in the shorter run the most that can

be hoped for under the circumstances in which Government expenditures make necessary a variety of taxes and high rates, is a policy committed to the reduction of those inequities and diseconomies. But the sound longer-run goals of fiscal reform are surely a system of taxation that takes the taxpayers' dollars from him as fairly as possible and with a minimum of economic loss (whether apparent or concealed) to the national economy, and the establishment of a level and direction of expenditures that will use those dollars as fairly and as effectively as possible, with a maximum of economic benefit to the Nation at large.

2.4 Because the Commission is primarily concerned with taxation, it probably has to assume a continuing high level of Governmental expenditure, but this does not prevent it from recognizing that its task of determining what may be the best possible system of taxation would be simpler and the results more definite if the Government's expenditures were substantially reduced.

2.5 Two generally accepted principles of taxation can serve as guides toward the solution of tax problems generally as well as the solution of the particular tax problem with which the subsequent sections of this Submission deal. The first of these principles is that of equity. It prescribes equal treatment for tax subjects (individuals or firms) that are in essentially equal or like circumstances, and it permits a differentiation in tax treatment only in so far as there is a relevant difference in the circumstances of the subjects taxed. Although equitable taxation requires justice and impartiality, and so is ethically

or morally right, it can be shown also to be more economical for the society as a whole than inequitable taxation.

2.6 The second principle is that of economy. In so far as possible, taxation should be economically neutral. That is, it should not prevent the optimum allocation and use of the Nation's resources that a free-market economy makes possible.[1] It can be said categorically that taxation that limits the production of desirable goods and services or that interferes with free, competitive marketing processes is uneconomical.

2.7 These two basic principles provide standards for judging the quality of a tax system and each particular kind of tax within it.[2] We shall apply them to the income tax especially as it is levied on corporation earnings with extreme partiality toward certain types of business corporations and with consequent harm to the corporations that are not so favored.[3]

2-B. Economic Effects of the Personal Income Tax

2.8 The personal income tax claims our attention only in passing, as it is not a major consideration in the study that follows. It is fundamentally different from the

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1 When there is monopoly not otherwise subject to Government policy the gains attributable to the monopoly advantage should be taxed away.

2 Other principles of taxation, such as those of convenience, certainty, economy in administration and compliance, and fiscal adequacy also are important, of course.

3 The primary objective of The Equitable Income Tax Foundation, as set forth in its Bylaws, is "To encourage study, research and investigation on the subject of taxation and its effect on the economy of Canada, and, in particular, to study the adverse effects of inequitable taxation on the economic growth of Canada."

corporation income tax because it falls directly on individuals, whereas the corporation income tax falls first upon business entities and through them upon individuals, some in their role as stockholders, others perhaps as employees and suppliers of corporations, and the many who buy the corporations' products. Apparently the personal income tax is not so much subject to shifting as is the corporation income tax, which according to students of the subject, is to a large extent shifted from the corporations to their customers through higher prices.

2.9 Although the present personal income tax has adverse effects upon the incentives of individuals to work and the ability of individuals to invest, much of these effects appears to stem from the highly progressive rates and the extremely high rates in the top brackets (which, incidentally, yield very little revenue). If the rates and other provisions of the personal income tax were equitable and were such that the tax could be administered so as to minimize evasion, it would be as good a tax as any, and better than most.

2-C. Economic Effects of the Corporation Income Tax

2.10 The corporation income tax, on the other hand, cannot be called a good tax. Even if its application were entirely equitable, it would be a bad tax, because it tends generally to reduce saving and discourage investment and business initiative, thereby restricting economic growth.

2.11 Nevertheless, until recent years few economists have dealt harshly with this tax, possibly because the majority, who are of the so-called "liberal"

persuasion, have regarded it as a tax on "profits"[1] and as thereby a means for redistributing income. Such economists have favored it also as a politically feasible way of obtaining large revenue and as a flexible, automatically adjusting element that furthers compensatory fiscal policy. Yet at the high rates that have prevailed for many years the corporation income tax is as economically stultifying a tax as has ever been levied in Canada and the United States.

2.12 It is widely recognized that the corporation income tax has an adverse effect on investment, both through the resulting reduction in funds available for financing expansion and through the reduction in the incentive of corporation managements to undertake the expansion of their businesses. The tax also has the effect of distorting methods of obtaining business capital, inordinate preference often being given to borrowing (with its attendant financial hazards) rather than to the acquisition of more equity capital. Moreover, the tax makes it difficult for new and rapidly growing corporate businesses to obtain as much capital as they can use effectively. Because such corporations often are leaders of their industries in the development of new products and new techniques, the financial restraint upon them due to the tax serves as a partial protection for older, entrenched businesses against the full vigor of their competition. Thus progress is

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1 Until fairly recent times the usual view among economists was that the corporation income tax could not be shifted. Now, more realistically, the fact is being recognized, even by "liberal" economists, that to a large extent the tax is passed on to consumers. This change in economic thinking will in due time undoubtedly cause legislators to look upon this tax with greater skepticism.

slowed, and the Nation is prevented from obtaining the full benefits (in terms of more goods at lower costs and lower prices) that a thoroughly dynamic, competitive economy would provide.

2.13 The greatest harm done by the corporation income tax comes about through its adverse effect upon the incentives of corporation management to add new productive facilities and in other ways to expand operations. When contemplating the investment of funds in the expansion of its business, corporation management must have the prospect of an after-tax return on its investment sufficient to offset both the interest cost of the capital committed to the investment and the possibility of loss that is involved.

2.14 To illustrate the problem that management faces, let us assume that a 10 per cent annual after-tax return is considered necessary if the additional investment is to be just barely attractive. Then, for a corporation subject to a 50 per cent tax rate, the expected pre-tax return on the investment will have to be at least 20 per cent, because the income tax will cut this return in half.

2.15 A brief but excellent analysis of the adverse effect of the corporation income tax on business expansion and economic progress was made by Mr. George Terborgh, a well-known American economist, in the following statement:[1]

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1 "Corporate Income Tax Rates", Tax Revision Compendium, Compendium of Papers on Broadening the Tax Base, submitted to the Committee on Ways and Means in connection with the Panel Discussions on the same subject to be conducted by the Committee on Ways and Means, beginning November 16, 1959, Vol. 3, p. 2303 ff.

"The increase in the required pre-tax return automatically excludes a whole range of investment projects that would be eligible in the absence of the tax, or at a lower tax rate. It limits eligibility, in other words, to projects of great urgency. The result is the deferment of both new business ventures and investments in the improvement of existing operations until their expected pre-tax return rises to the high requirement. . . Old facilities must become more decrepit and inefficient before they are replaceable. Their service lives are extended. The economy drags along in consequence with a productive mechanism of greater average age, and with more accumulated deterioration and obsolescence than would obtain in the absence of the tax. By the same token - and here is the point of issue - this shielding of existing capacity from new competition permits the sale of its products at higher rates than could otherwise be obtained. It is through these higher prices that the income tax is shifted to the market.

. . . . . .

"I conclude that there is no foundation to the common belief that a shifted corporate income tax is harmless.

. . . . . .

"In short, it reduces the effectiveness of competition and slows economic progress."

2.16 Without qualifying our conclusion that the corporation income tax is uneconomic, we must acknowledge that it would be unrealistic to suggest elimination of the tax in its entirety at once. The $1.2 billion obtained by means of this tax is so large a contribution to national revenue that an attempt to find alternative sources for the whole amount within a short period of time would be difficult and disruptive, and almost certainly it would not be politically feasible. Although a transfer of a part of the burden of the corporation income tax in the short term, and the transfer of a progressively larger part of it in the longer term, is highly desirable, it is only realistic to assume that at least at a reduced level this tax will continue to be a source of considerable revenue for some time to come.

2.17 In this circumstance, when because of the exigencies of revenue requirements a tax that is widely admitted to be unsatisfactory and to have a retarding effect on the economy has to be retained, it is essential that its impact should be distributed as fairly as possible. If the manner in which the tax is imposed is unfair this only serves to enlarge the economic distortions caused by the nature of the tax itself.

2-D. Some Generalizations

2.18 Before proceeding from this broad appraisal of the corporation income tax to the analysis of a particular way in which its discriminatory application distorts and harms the national economy, a few generalizations may be in order.

2.19 Competitive business generally, whether corporate or otherwise, needs all the help and encouragement that permissive, non-restrictive Governmental

policies and attitudes can provide. We should never let those who enact our tax laws forget that through business activity most of the Nation's wealth is created. It is ironical that well-meaning legislators have been so blind to the effects of taxes that reduce initiative, discourage investment, hamper business activity, and restrict economic growth.

2.20 Not only businessmen but many other thinking people who feel concern for the economic welfare of the country are looking to this Commission to help free the Nation from the thralldom of outdated and disproved fiscal dogma and guide it toward the establishment of the best possible tax system. A new and bold approach to Canada's tax problems, implemented by appropriate legislation in a climate generally favorable to competitive business activity, could make Canada, on a per capita basis, perhaps the richest nation of the world. The Commission's task involves both practical economic considerations and high moral judgments.

3.1

3. THE PROBLEM OF CO-OPERATIVE TAX PRIVILEGE AND ITS SETTING

3.1 Co-operatives, although they are corporations, are to a large extent exempted from the corporation income tax. Section 73 of the Income Tax Act gives newly-established co-operatives complete exemption from the tax for the first three years of operation. Section 75 of the Act permits co-operatives (and other corporations), subject to certain restrictions, to deduct from their income patronage dividends paid to customers. Complete elimination of income from taxation through the payment of patronage dividends is prevented in most cases by the provision that such payment may not reduce taxable income below an amount equivalent to 3 per cent of the capital employed in the business, which is calculated according to the special and somewhat artificial criteria established in the first schedule to the Excess Profits Tax Act. Capital employed for purposes of this section includes any monies borrowed from other than banks and credit unions. However, the minimum earnings of 3 per cent of capital employed may be reduced by the interest paid upon borrowed funds included in capital.

3.2 Ordinary investor-owned corporations can make little or no use of the privilege of deducting patronage dividends from their income; but co-operatives, because the payment or allocation of patronage dividends is an essential part of their owner-member relationship, can and do take full advantage of it, thereby greatly reducing the amount of their income that is subject to tax.

3.3 Moreover, the co-operatives need not pay their patronage dividends in cash in order to reduce

their tax liability. They may simply allocate their income to their members by crediting them in one way or another without necessarily making a firm and definite commitment to pay cash at some future time. In thus retaining a large part of their earnings largely tax-free, the co-operatives have enjoyed an important source of capital funds that have greatly aided their growth and expansion.

3.4 The tax status of ordinary investor-owned corporations is in marked contrast to that of the co-operatives. The ordinary corporations are subject to a tax of 21 per cent on the first $35,000 of their income and 50 to 52 per cent on income in excess of $35,000.

3.5 The "3% of capital employed" provision has ensured that most co-operatives have made some contributions in income tax. However, the definition of "capital employed", used in the Act, has the effect of understating the real asset worth of a business and as a result the provision has apparently been much less productive of tax than its authors might have expected. It is understood for instance, that the Alberta Wheat Pool with net earnings in one year of over $3 million paid tax at a rate of under 4 per cent of its earnings. The competitor of such a co-operative would have paid tax at around 50 per cent. The extent of the discrimination needs no emphasis. If a co-operative and an ordinary corporation both employed $1 million of capital, none of which was borrowed, and each had an income of $60,000, the co-operative would be taxed only on $30,000 while the ordinary corporation would be taxed at the progressive rates applicable to the full $60,000.

As a further extension of the example, if each company had income of $60,000 and total capital of $2 million, $1 million consisting of funds borrowed at 6 per cent interest from lenders other than banks or credit unions, and $1 million derived from other sources (shares, etc.) the co-operative could eliminate its income entirely, while the company, if it did not pay patronage dividends, would be taxed on the full $60,000. In this case the $60,000 of interest the co-operative paid on borrowed funds would totally offset the 3 per cent of capital employed and there would be no restriction on the proportion of the co-operative's profits it distributed by way of patronage dividend.

3.6 It should be made clear that co-operatives, in taking full advantage of the provisions that favor them in the Income Tax Act, are not <u>evading</u> taxation, in the sense that they are improperly benefitting themselves. Their <u>avoidance</u> of a large part of the tax burden that ordinary corporations cannot avoid is the fault of the tax law. Co-operative management is duty bound to the co-operatives' members to make the most of the advantage that the law provides. It is the duty of the legislators to see that tax laws are equitable.

3.7 It should be noted also that whatever objection is made in this Submission to the co-operatives' tax privilege is not an objection to the co-operatives themselves. Co-operatives have just as rightful a place in the free-enterprise system as ordinary corporations, partnerships, and individual proprietorships.

3.8 Because this Submission deals with the

discriminatory application of what is by far the most important tax levied on business by the Federal Government, in both Canada and the United States, we have called attention in the preceding section to the general proposition that the taxation of business tends generally to discourage enterprise and investment, hamper productivity, and restrict economic growth. Although a reduction in the corporation income tax would reduce the advantage now enjoyed by the tax-favored co-operatives, and the elimination of that tax would remove the co-operatives' present tax advantage, the solution of this problem of tax inequality should not wait upon this doubly desirable major reform of the tax system, if such reform is to be delayed. In the meantime some other solution must be sought.

3.9

3.9 Although much of the analysis that follows in this Submission is factual statement, the use of statistics has been kept to a minimum. Moreover, only limited reference is made to the history of the co-operative movement, the co-operative form of organization, the ways in which the co-operatives transact business and reward their patron-members, and the evolution of the co-operatives' competitive advantage as that has come about through favored treatment by Government. These and similar matters undoubtedly have come to the attention of the Commission already.

3.10 The intention here is to deal primarily with the larger issues that are involved in the co-operatives' present tax status, examining them not from the point of view of any one industry but from that of the whole economy. The principal question

to be answered is whether it is in the public interest to give more favorable tax treatment to co-operatives than to ordinary corporations.

3.11 The co-operative tax problem in the United States is similar to that problem in Canada. In both countries the crux of the problem is the privilege accorded co-operatives of deducting patronage dividend payments and allocations from income before computing the tax liability.

3.12 In 1962, in the United States, a step was taken toward tax equality when Congress enacted legislation providing for a tax on the income of farmer co-operatives, to be paid either by the co-operative or by its patron-members. To escape tax, a co-operative must pay 20 per cent of its patronage dividend in cash. A patron-member receiving the cash dividend must pay tax on it to the Federal Treasury, if he has sufficient income to subject him to tax. This has reduced somewhat the ability of the co-operatives to accumulate capital tax free. In Canada, the problem is somewhat modified by the provision that patronage dividend payments may not reduce taxable income to less than 3 per cent of capital employed, although the somewhat artificial manner of determining capital employed (as noted above) may substantially lessen the amount of taxable income that the percentage figure seems to suggest.

3.13 These modifications, however, are far from solving the problem, in the two countries. The establishment of your Commission, and the Commission's careful study of the problem give hope that at last the problem will be dealt with realistically in Canada, thereby setting an example that various members of the U.S. Congress can point to when they again make their case for equality in the tax treatment of co-operatives and ordinary corporations.

4. HOW SPOKESMEN FOR THE CO-OPERATIVES HAVE SOUGHT TO JUSTIFY THE TAX ADVANTAGE

4.1 Leaders of the co-operative movement have endeavored to justify the tax-favored status of co-operatives in various ways. Their oldest and simplest argument has been that because co-operatives are an "infant form of business organization" they should be protected and fostered by the Government, through tax exemption and in other ways. This argument avoids the real issue, which simply stated, is whether or not co-operatives have income that can be properly subject to taxation. That issue has long been obscured both by confusing terminology and by extremely different assumptions as to the nature of the co-operative and its functions as a business entity. In effect, the opponents and the proponents of the tax advantage for the co-operatives use two different terminologies, one of them consisting of the ordinary expressions of the business and financial world, the other consisting of words and phrases devised to fit the various theories advanced in support of the co-operatives' claim to exemption from the income tax. Those theories are essentially attempts to justify the deduction or exclusion of patronage dividends from earnings that otherwise would be largely subject to taxation.

4.A The "Infant Form of Business Organization" Argument

4.2 The nature and scope of co-operatives' business transactions are today far different from what they were when the typical co-operative was small, localized, and limited to carrying on one or a few business activities for a comparatively few members. Co-operatives once were looked upon as being somewhat in

the nature of charitable institutions, and some were so small and so limited in their transactions that they were in actuality little more than agents for their member-patrons. For many years they were considered a means for aiding the impoverished and the "downtrodden working class" in England and other European countries. The early history of the consumer co-operative movement has a heart-warming quality. One reads of how in 1844 the 28 Rochdale Pioneers, having accumulated by dint of hard thrift, a tiny capital, rented part of an old warehouse in Toad Lane where they sold to themselves flour, oatmeal, butter, and sugar at near wholesale prices. From the beginning of the co-operative movement the democratic nature of the simple co-operative enlisted the sympathetic interest of students of economic life.

4.3 For these reasons there was a presumption that what was the smallest and apparently weakest, yet equally meritorious, of the various forms of business organization should be protected and fostered. Even today many people tend to look upon co-operatives as semi-benevolent organizations, although in actuality the co-operatives serve an enlightened, often well-off, tax-wise cross-section of the population. Moreover, the officers of the larger co-operatives are "big businessmen" in the same way that the officers of the larger ordinary corporations are. Their interest, while serving well their organizations, is to do well for themselves also, in terms of pay and promotions. The co-operatives' tax privilege is a great advantage for them as well as for their organizations. Co-operatives not only employ efficient management but they also quite properly engage highly qualified lawyers, chartered accountants and economists to protect and promote their income tax advantages. In short co-operatives carry on their businesses in accord with keen business acumen.

4.4 The co-operatives have "grown up". They are no longer an "infant" form of business organization. The trend of co-operative business has been markedly upward. In Canada the volume of co-operatives' business increased from $235 million in 1940 to $1,335 million in in 1960.[1] In the United States during this same period the increase was from $2 billion to $12 billion.[2] Although this was a period in which the value of farm products and the amount of farm income increased, it seems evident that a considerable part of the growth in the co-operatives' business was due to competitive advantage through the leverage of their tax-favored status.

4.5 Co-operatives have ceased to be merely small neighborhood groups. They have become an important part of the Nation's economic life. Many are large firms, with far flung business operations. They manufacture, wholesale, and retail thousands of products; they provide banking and insurance; they market grain and livestock; they are in process of operating a packing plant; they grind feed, process vegetable oils, market and process poultry and dairy products, pack fruit, operate lumber mills, own and rent out space in office buildings; they engage in the milling and marketing of flour; they engage in printing and publishing and petroleum operations in all phases from owning oil wells to the selling of the finished products at service stations; they buy, sell and process seeds, sell chemicals and fertilizers, coal, farm supplies, machinery and binder twine. The long continued expansion of markets for their products and services has been paralleled by integration of the various phases of productive activity, from the extraction of raw materials,

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1 Data include sales of farm products and sales of supplies at retail to co-operatives' members.

2 Data are for farmer marketing and supply co-operatives only.

through processing, manufacturing, transportation, financing, wholesaling, and retailing.

4.6 The assertion sometimes made that the co-operatives are wholly dependent on tax-free retained earnings to finance their growth is not valid. They can sell securities to their members; they can borrow funds from the investing public; and their bank credit is just as good as that of comparable proprietary corporations, even better perhaps, because of their tax advantage.

4.7 The argument that co-operatives as an "infant" form of business organization deserve special, favorable tax treatment has lost whatever validity it may have had.

4.8 Semantic Confusion: Synthetic Words and Phrases and the Specialized Use of the Term "Co-operative"

4.8 The double terminology that pervades the thought and the literature on co-operatives has done much to bewilder the unprejudiced, inquiring layman. Spokesmen for the co-operatives insist, for example, on the terms "patronage refund" or "patronage rebate" rather than "patronage dividend" because those terms imply a price adjustment rather than a disbursement of earnings. They employ the term "net margin" rather than "income" or "earnings," because use of the latter terms would negate the assumption that co-operatives have no income. They prefer to speak of the disbursements that they make in proportion to patronage as being "excludable" rather than "deductible" from whatever gain has resulted from the co-operatives' transactions, for the term "deductible" may seem to imply that there has been an element of income through the co-operatives' operations.

4.9 The term "co-operative" is itself ambiguous. As one student of the subject has pointed out,

> "The word 'co-operative' suffers from having two meanings. In one sense it is as vague as 'working together,' or even, in modern usage, 'ready to help.' In the other it is the precise, in many countries the legal, definition of a particular kind of business organization."[1]

4.10 Some writers, in discussing the co-operatives, dwell upon the general nature of human co-operation in many areas of life, intending to show the extension of a common tendency to one particular form of business organization. This view confuses the formal, organizational nature of the owner-patron co-operative business association with such sporadic occurrences - partly sociable in their nature - as barn-raisings, logrolling, quilting parties, and husking bees, as well as other expressions of neighborly aid of a quid pro quo sort.

4.11 One need hardly comment that co-operation has always occurred among people in most phases of their living, that it is not solely economic, and that where it finds formal organization it is not necessarily based upon an identity of ownership and patronage. In our society the family is the primary co-operative unit, but church, lodge, school, professional association, and the like, are also, in their ways, co-operatives.

4.12 The term "co-operative," although convenient and expressive when applied to a business organization, is used arbitrarily. Few would claim that co-operation can be found only in those firms that are

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1 Margaret Digby, The World Co-operative Movement (London: Hutchinson's University Library, 1948), p.7.

formally designated as "co-operatives." In fact, every form of business involves co-operation for mutual advantage. The stockholders in an ordinary corporation have joined together to effect the production of goods and services, thereby to obtain a reward for their efforts and capital. The individual proprietor of a business enlists the co-operation of employees, suppliers, and lenders in his effort to meet the wants of others and gain a return for himself.

4.13 Employment of the term "co-operative" as though it were applicable only to the activities of a particular kind of business association is, of course, merely a matter of word usage. The pre-emption of the word in this way should not obscure the fact that our highly efficient industrialized economy has become what it is - in terms of productive power and wealth - through a minute division of labor, elaborate specialization, and the cohering force of a voluntary association of co-operating agents of production, regardless of the business form.

4.C Four Theories of Exclusion[1]

4.14 Four principal theories are offered by spokesmen of the co-operatives to justify the exclusion or deduction from gross income of the amounts paid out by co-operatives as patronage dividends. They may be conveniently referred to as the "partnership" theory, the "price-adjustment" theory, the "agency" theory, and the "debt-payment" theory.

4.15 The Partnership Theory holds that since

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1 In discussing the price-adjustment theory and the agency theory I have relied heavily on the excellent work of Roswell Magill and Allen H. Merrill, "The Taxable Income of Co-operatives," Michigan Law Review, XLIX (December 1950).

a co-operative association is simply a group of member-patrons acting in concert it is, like a partnership, "merely the alter ego of its patrons". Therefore, it is argued, the co-operative itself cannot have earnings, and whatever income it obtains is in reality the income of its patrons.

4.16 This is the weakest of the theories, because co-operative associations are formally incorporated entities - they are corporations; and the argument does not presume also that stockholders in ordinary corporations are, nevertheless, partners in those organizations. Co-operatives own property, enter into contracts, incur debt, and transact business in their own names. They are chartered in perpetuity as are ordinary corporations; and their members, like ordinary stockholders, have limited liability. In the United States, Congress made plain that it regarded them as corporations when it specifically exempted certain farmer co-operatives from the corporation income tax; and in the Wisconsin Co-operative Milk Pool Case[1] the Court of Appeals held that

> ". . . such corporations differ from others not in corporate function but only in that the profits, instead of being distributed to stockholders, are allocated to patrons ratably in proportion to the amount of business transacted with the latter."

It seems clear that if a co-operative is a corporation it is not a partnership.

4.17 The Price-Adjustment Theory has been the

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1 119 F. (nd) 999 (7th Cir. 1941)

most influential one in the co-operatives' attempts to justify their tax-favored situation. Briefly, it asserts that a co-operative transacts its business at cost and that its patronage dividends are simply an adjustment in the prices of the products it sells to or buys from members. Proponents of the theory hold that such payments, being in the nature of price rebates, cannot be considered income. The underlying assumption is that the co-operative has a contractual obligation to distribute its earnings or net margins to the members as patronage dividends. When the distribution is in some form other than cash it is supposed to constitute an "immediate re-investment" on the part of the patron-members.

4.18 The basic question with respect to the taxability of co-operatives' net margins, as Magill and Merrill point out, is:

> "Can a corporation buy products or raw materials from its equitable owners at prices substantially greater than their market value or substantially greater than the prices at which they are otherwise obtainable; or sell other products to its equitable owners at prices substantially less than market and, thus, by purporting to do business 'at cost', avoid earning taxable income?"[1]

4.19 Similar tax problems have arisen where two parties have related economic objectives but are not dealing at arm's length:

"The firmly established rule in resolving

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1 Magill and Merrill, p. 187.

> such problems.... is that in transactions between related taxpayers, where there is an element of self-dealing, economic income cannot be effectively allocated by the parties so as to mitigate the total tax burden.... Moreover, payments labelled as 'selling prices' by buyer and seller are an accurate measure of the costs of doing business only so long as buyer and seller have adverse economic interests and are trading at arm's length."[1]

4.20 The Price-Adjustment Theory fails to take account of the fact that co-operatives are, in actuality, separate as business entities from their patrons; that there is an owner relationship as well as the patron relationship between co-operatives and their members; and that the transactions of successful co-operatives with outsiders result in a gain or profit to the members. "The net margin or the patronage dividend is all or some part of that profit, and it is being distributed or allocated to the members as the true owners of the business."[2]

4.21 Although it may be argued that a part of some patronage dividends is not similar to the dividends of ordinary corporations (because of prices set arbitrarily to members), there is no clear-cut difference between patronage dividends in general and the dividends of proprietary corporations. The fact that patronage dividends are paid to patrons, who are also stockholders, does not make such dividends anything

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1 Magill and Merrill, p. 188.

2 Ibid., p. 189

other than a distribution of profits. They are paid to individuals whose interests the co-operative is seeking to further. It is not dealing with those persons in a situation where there are adverse interests. Co-operatives are organized to increase the gain of their members, and to the extent they do so they have profits.

4.22 A rebate is actually such only if paid to a person whose interest is adverse to that of the business which pays it. The gain of a marketing co-operative arises primarily from transactions with those to whom it sells the products of its members; the gain of a purchasing co-operative arises primarily from its dealing with those from whom it purchases. But the patronage dividend is not paid as a rebate to the person or firm from which the gain is derived. In an analysis of the taxability of co-operatives' earnings the significance of this point cannot be over-emphasized.

4.23 Ordinarily, the profit of a co-operative is transferred to its owner-patrons either through prices more favorable than those prevailing in the market, or through patronage dividend payments and credits, or through a combination of these. What is termed a "price-adjustment" or a "rebate" is ordinarily a distribution of profit. It seems obvious that the members of a co-operative have not made that profit just by dealing with themselves.

4.24 The Agency Theory holds that the co-operative is merely the agent of its patrons and that when there is an excess of funds after it has paid expenses as bailee for the patrons it is legally obliged to distribute that remainder to them. It acts, supposedly, simply as a trustee when it takes legal title to their

products in order to facilitate sales.

4.25 More observation, however, shows that co-operatives, as we know them today, are not true agents of their members. In their operations they take title, ordinarily, to the products that they purchase from or sell to their members. Moreover, an organization that pays dividends and accumulates reserves, as a co-operative ordinarily does, can hardly be regarded as a mere legal agent of its owner-patrons. If a marketing co-operative were to sell the product of each particular member and then account to each for the gain or loss on his specific sale the fact of agency might be established. Or, in the case of a purchasing co-operative, if each patron were to determine where, to what extent, from whom, and upon what terms the goods he wanted were to be obtained there could be agency.[1] The fact is that the patronage dividend paid to any one member is not dependent upon his individual transactions with the co-operative but upon all its dealings throughout the year. "The member is a joint venturer in a corporate business, as is a stockholder in a business corporation."[2]

4.26 The manner in which co-operatives are controlled shows that they are not mere agents:

> "The control of a co-operative corporation by its members resembles much more closely the control of a corporation by its stockholders, than the control of a common law agent by his principal. The discretion vested in the management of the co-operative

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1 Magill and Merrill, pp. 184-185

2 Ibid., p. 186

"is substantially equivalent to the discretion vested in and exercised by the management of any corporation, or by the management of an association taxable as a corporation. Methods of operation, expansion of business activities and the accumulation or distribution of earnings are matters controlled by members only through their directors, who exercise a discretion far removed from the limited authority of a common law agent."[1]

4.27 What appears to be a new theory of exclusion is the Debt-Payment Theory. According to it, if a patronage contract between the co-operators and the co-operative is properly drawn it will "constitute a pre-existing obligation to pay the patronage payments."[2] According to one of its proponents -

"... if and to the extent that a co-operative association (or any other taxpayer) receives money subject to a then existing and legally enforceable obligation to pay over such money to its patrons, that money constitutes a debt which the taxpayer owes to its patrons (rather than income to the taxpayer) and, being a debt rather than income, it properly is excludable from the taxpayer's gross income."[3]

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1 Magill and Merrill, pp. 185-186

2 Charles E. Nieman, "The Proper Treatment of Co-operatives," in Tax Revision Compendium: Compendium of Papers on Broadening the Tax Base, submitted to the Committee on Ways and Means in connection with the panel discussions on the same subject to be conducted by the Committee on Ways and Means beginning November 16, 1959, Vol. 3 pp. 1967-1981.

3 Ibid., pp. 1971-1972.

4.28 This theory resembles the price-adjustment theory, with emphasis, however, upon the purported indebtedness that is involved. Actually, the theory is irrelevant; the real question is: What entity earned the money that is used to pay the debt? It is an established tax principle that the entity earning the income cannot escape the tax due thereon by contracting the income away. The existence of a formal contract would not justify ignoring the real income of a corporation. An anticipatory assignment of income does not offset tax liability.

4.29 If the debt-payment theory had any merit, any business corporation could adopt a by-law requiring it to pay its usual dividends to its stockholders. Then, when it paid those dividends, it would be just paying off debts. But how would that change the fact that the income used to pay off the debts were taxable income?

5. THE CONTROLLING FACT: CO-OPERATIVES HAVE THE SAME KIND OF INCOME AS THAT OF BUSINESS CORPORATIONS WHICH ARE FULLY SUBJECT TO THE INCOME TAX

5.A The Nature of Business Income

5.1 The primary function of any business is the creation or augmentation of wealth. Whatever is done through combinations and arrangements of factors of production, all along the route from extraction of raw materials to sale of finished products, including marketing activities, adds to the value of the products. Few if any economists would assert that the stages of the marketing process that are necessary to bring goods to their ultimate users are not a part of the whole productive process or that value is not added to the goods that pass through them. In every business, whether it deals in goods or services, this function of creating and adding value is practically continuous. When a business is reasonably well operated there is an excess of receipts over expenditures. This excess, to put the matter very simply, is what constitutes income or earnings. Under competitive conditions it is the reward to owners of the business for the use and risk of their capital. For clarification of this basic concept we must distinguish between the income or earnings of business and what properly may be called profit.

5.2 The layman's conception of profit, as well as that of the accountant, the tax collector, the financial reporter, the labor leader, and the sociologist, is quite different from that of the economist. They use the term generally to include normal earnings on equity capital as well as excess gains.

5.3 To the economist, however, profit is whatever residue there may be after all payments have been

made, including wages and salaries, rent, and interest (implicit and explicit). Various terms are used to distinguish the economist's conception of profit from that more loosely held: "pure profit," "economic profit," "excess profit". Such profit occurs when a business obtains for its products more than the sum of all its costs, including payment to management for what that management is worth and payment of a return on its capital at the rate that its stockholders could obtain on the next best investment available to them. The part of a subsidy that a business may receive over and above its costs is also in the nature of pure profit.

5.4 In a dynamic economy profits occur, but there are losses too. The imperfectly competitive free-enterprise system that we know today, of which the co-operatives are a part, is not so much a profit system as a profit-and-loss system. Even in prosperous times, much of the profits in some parts of the economy are offset by losses in other parts; and the net gains of business during the prosperity phase of the business cycle are to a considerable extent offset by losses during recession and depression.

5.5 Where there is strong competition within an industry and firms are free to enter that industry at will, pure profits cannot last long; they are competed away, and earnings of all but the weakest firms tend to be only enough to cover all costs of operation. What seem to be excess earnings of some firms are ascribable either to superior management or to fortunate circumstances. They are properly due either to the management for the additional value its skill has created or to those who assumed the financial risks of

the business.

5.6 Many laymen are unaware of the evanescent nature of the rather meager real profits that the free-enterprise, profit-making system yields over the course of time. This is because they look upon the ordinary, normal return on investment, as well as the extraordinary gains as profit.

5.7 Much the same view is reflected in the Income Tax Act. It is not concerned merely with profits as described here. It elaborately and arbitrarily defines for tax purposes what the legislators consider to be the income or earnings of corporate business. Most of the income of firms that are subject to the corporation income tax is a normal return on invested capital and compensation for risks assumed. It is not, for the most part, real profit at all. The fact to be emphasized is that the corporation income tax is not primarily a tax on profit, although it catches profit when that is a part of corporate earnings.

5.B. How Co-operatives Obtain Income

5.8 A reasonably well-run co-operative, because it is a productive, wealth-creating business, will have income. The particular way in which the owner-patrons participate in that income does not change either the fact of its existence or the fact that it has come about through the same kinds of value creating and bargaining as has the taxable income of ordinary corporations.

5.9 When a co-operative association is formed, that particular kind of business organization has been chosen because its prospective owner-patrons believe it to be the best means for benefitting themselves. They are not undertaking through their associa-

tion merely to carry out transactions between or among themselves or between their individual selves and their associated selves; but rather, they have associated in order to transact business as advantageously as possible with individuals and firms outside their own organization. It is from these latter transactions, ordinarily, that the income (earnings, gain, profit, net margin, or whatever else the overage above costs may be called) of co-operatives is derived.

5.10 In such transactions, if there is not sufficient acumen on the part of a co-operative's management, or if market conditions are unfavorable, there will be loss instead of gain; and no amount of mere loyalty and good will on the part of the owner-patrons can change this. On the other hand, astute management or advantageous market conditions, or the two combined, may result in large income for a co-operative.

5.11 So far as a co-operative's owner-patrons are concerned, if its prices are more favorable to them than prices elsewhere, what they gain is offset by a corresponding reduction in the co-operative's income; if a co-operative's prices are less favorable, the disadvantage to the owner-patrons is offset by larger income (or smaller loss) for their co-operative than would otherwise have occurred. In other words, the owner-patrons collectively do not make a profit or sustain a loss because of their transactions with their collective selves. Between themselves and their association there is not the same "arm's-length" bargaining that there is between their association and all others with whom it deals. The usual source of a co-operative's gain is its transactions with outsiders whose interests

are adverse to those of the owner-patrons. Likewise, it is through transactions of this kind that most of the income of proprietary corporations is achieved.

5.C Capital as a Source of Co-operatives' Income

5.12 Payment to capital as a part of the cost of production is a necessary business expense for co-operatives as much as for other forms of business. Such expense has to be incurred if the capital is to be obtained, whether from the owners of business or lenders, because there is not enough capital to go around and it must be "rationed" at a price determined by supply and demand in the market place for funds. Permanent capital originates only through saving. Savings represent sacrifice and abstinence - the foregoing or delay of the enjoyment of whatever things the saver might have obtained for his surplus. For that reason savings are not ordinarily created as rapidly as an expanding economy can use them to add to its productive capacity. Because they are productive when invested but are formed at a sacrifice to the saver, and because they are scarce relative to the need for them, savings command a price, that is, a part of the product they help to create.

5.13 Both co-operatives and ordinary corporations use capital to produce goods and services; and through the transactions that take place they have earnings or income. In each case the income is fundamentally the same. The fact that much of the capital of the co-operatives has been obtained through involuntary "re-investment" of patronage dividends does not make the earnings of that capital unlike the earnings of capital in ordinary corporations. That the re-investment is involuntary is simply additional evidence that the co-opera-

tives are business entities separate from their members.

5.14 When a co-operative obtains capital from agencies subsidized by government on terms more favorable than those obtainable by another business entity with comparable credit in the ordinary capital market, it has a competitive advantage similar to that obtained through tax advantage. But when it borrows through the same financial channels that are available to other business, it pays a competitive rate, and to that extent its position is clearly competitive. If a co-operative relies upon its members to provide capital and does not pay them the full market rate, there is a concealed cost to members that may make the co-operative's operations seem more economical than they are in actuality. If, on the other hand, a co-operative pays its members more for the use of their capital than is necessary, its operations may seem to be less economical than they really are. In either case, the prices charged for its products or paid to its members for their products - whether above the market or below - must be taken into account.

5.D The Member-Patrons of a Co-operative are "Owner-Enterprisers of a Profit-Seeking Business"[1]

5.15 The capital employed and the risks assumed in the conduct of a co-operative's business are those of the owner-patrons, who are just as much investors in a profit-motivated corporate business as are the shareholders in other business corporations. The owner-patrons are attempting through the transactions of their mutual organization to save or to gain. Though their

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1 Lorne D. Cook, An Economic Analysis of the Federal Taxation of Income from Co-operative Enterprise (Doctoral dissertation, University of Michigan, 1954; typewritten, on microfilm), p.1.

savings may be hidden or obscured by the complex relationship of owner-patron, prices, and patronage dividends, those savings or earnings are there, nevertheless, to the extent that the association operates economically. It is in no true sense a "non-profit" association, for it has none of the typical characteristics of non-profit organizations. As Professor Cook has expressed it: "The gains from co-operative enterprise are found to be in the nature of corporation profits, which, although they are distributed according to patronage, accrue to member-patrons in proportion to investment and entrepreneurial risks undertaken."[1]

5.16 All businesses, including co-operatives, that operate above the break-even point before equity capital is rewarded have earnings. It simply cannot be said that co-operatives, because of the nature of their organization, do not have earnings. As Albert W. Adcock has pointed out:

> "When comparisons are made it is clear that co-operative corporations possess all of the essential attributes of ordinary business corporations except as to the basis of distribution of their net earnings ..... The patronage dividends distributed by a co-operative corporation are in the usual case distributions of corporate income which only superficially resemble refunds or additional price payments."[2]

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1 Ibid.

2 Albert W. Adcock, "Patronage Dividends: Income Distribution or Price Adjustment," Law and Contemporary Problems, XII (Summer, 1948), pp. 524-25.

5.17 The late Professor O. Glenn Saxon, of Yale University, showed the nature of co-operatives' business activities and earnings to be essentially the same as those of ordinary corporations:

> "There is no basis in law, equity, economics, or logic for any co-operative corporation to deny that it absorbs risks, creates economic capital, income, and profits through the use of its own management, labor, and capital. If successful, it has both gross and net profits which are not its members' profits, and, if unsuccessful, has gross profits less than its operating costs, or net losses which are not its members' losses. Nor can it deny that it creates, in addition to profit and new wealth, new jobs, as does any ordinary corporation, unless it merely replaces other organizations. It, therefore, produces dollar income, economic income, and taxable income.
>
> "The various absurdly illogical and inconsistent theories or claims of these co-operative corporations are, in the final analysis, only a deliberate or unconscious use of semantics for the purpose of confusing the real issues. The ownership of the income or profits of a co-operative corporation or any other legal entity turns not upon how that income or profit is distributed, but how it is produced and by whom it is produced."[1]

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1 U.S. Congress, House of Representatives, Committee on Ways and Means, Hearings, Revenue Revision of 1951, Part 2, 82d Cong., 1st Sess., 1951, p. 1350.

5.E The Problem of Determining Co-operatives' Income

5.18 It has been argued that patronage dividends should not be taxed, because it is impossible to determine to what extent they represent distributions of income and to what extent they do not. It is true, of course, that such dividends may understate or overstate a co-operative's earned income. In fact, a co-operative could operate in such a way that patronage dividends would not be necessary to affect a distribution of benefits to its patrons. Or a co-operative might pay patronage dividends that actually represented only savings due to the omission of such services to their patrons as free delivery, extension of credit, convenient location, and the like, the costs of which, had they been incurred, would be allowable deductions for the co-operative.

5.19 In some instances, marketing co-operatives set the prices paid to their members below prevailing market prices, and purchasing co-operatives set the prices charged their patrons above the market. This is done, ordinarily, to build up the organization's capital. In such cases, the resulting patronage dividends - which would be in excess of normal earnings - are not paid in cash but are distributed in non-cash form as evidence of further investment of capital in the co-operative by its patrons. It must be noted, of course, that not all non-cash patronage dividends represent purely capital accumulation of this particular kind and therefore are not income. But considerations such as these have led some observers to question the suitability of patronage dividends as a basis for the application of an income tax in the case of co-opera-

tives.

5.20 For another reason the benefits of a co-operative to its patrons may not be indicated by the amount of its net margins or its patronage dividends. Co-operatives, if they choose to do so, can sell to their members at prices so close to costs, or buy from them at prices so close to what the co-operatives will realize, that little or no patronage dividend payments will result. The benefit to patrons would then appear immediately in prices, rather than later in patronage dividends. Such arrangements would substantially lower tax liability if co-operatives' earnings or net margins were subject to the income tax. Here we encounter the "pricing-out" question which is dealt with later in this section.

5.21 As we shall see, these aspects of the problem of determining co-operatives' taxable income do not make it insoluble.

5.F Net Margins as Income

5.22 In this connection it is convenient to refer to the farmer marketing and purchasing co-operatives in particular, although much of what is said is applicable to any co-operative association. The marketing co-operatives regard their patronage dividends as a re-adjustment in the prices paid to members for their produce; and the purchasing co-operatives look upon their patronage dividends as a rebate, a discount, or an adjustment of prices paid by their members. Although, in general, such dividends are not true rebates or price adjustments, it is necessary to examine more closely their nature and that of the net margins from which they derive.

5.23 In the case of the marketing co-operatives, payments may be made to members in cash or scrip, or both. Typically, both cash and scrip are given as the initial advance to the farmer whose product is to be marketed; additional payments may be made to him in these forms later during the marketing period; and finally, the gain or as yet undistributed return to the association is calculated and each member is paid his proportionate share, partly in cash and partly in some form or other of scrip. This general method of payment varies from one co-operative to another, but the payment to the producer partly in cash and partly in paper is the common procedure. The hazards of price fluctuation and the attendant possibility of overpayment in cash are thus avoided. Where it is the policy of the co-operative to build up its resources, that is made possible by somewhat more use of scrip than would otherwise be required.

5.24 Strictly speaking, under present reporting requirements for marketing co-operatives, only the final payment (which is determined after all expenses and receipts are known) is a patronage dividend. The preceding disbursements made to members during the marketing period are considered the cost of goods sold. This distinction is arbitrary, although perhaps convenient. It has little significance in the present tax treatment of such co-operatives. No differentiation is made between that part of the total payment which is actually reimbursement for the produce acquired for marketing and that part which is a disbursement of what are in fact earnings achieved through the operations of the co-operative as a business entity.

5.25 The scrip part of the payment is more or less arbitrarily determined with regard to the financial policy of the co-operative itself, as well as with regard to a satisfactory total disbursement to its members. Presumably such disbursement is satisfactory to them if it approximates what they would have received had their produce been marketed independently or through an ordinary corporation engaged in marketing. Of course, where the co-operative is acting purely as a warehouseman and the actual selling is undertaken by a Government-controlled or producer-controlled sales agency or marketing board (such as the Canadian Wheat Board), any patronage dividends paid by the co-operative, whether termed interim or final, will constitute a distribution of profit earned by the co-operative warehousing business and will not represent any part of the price of the product being marketed by the agency or board. In such a situation the agency or board usually carries out a quite separate accounting with the producers.

5.26 The proportion of scrip payment and the degree of its liquidity or marketability has an important bearing upon the continuance of membership of the producers in the co-operative where a competitive market situation exists. If the scrip is fully valued by the recipient, it is a supplement to the cash he receives; if it is not, it may be appraised by him at a considerable discount because of its lack of a fair market value. It may represent little additional real payment to him over and above the cash that he has received. In cases where a considerable proportion of the payment to the producer is made in scrip of little current value - being perhaps non-negotiable, non-interest-

bearing, and redeemable only at some indefinite time at the option of the association - and the cash return is less than some other means of marketing would have yielded, it is likely that the co-operative is in a monopsonistic position in the area which it serves, that is, its members do not have a satisfactory alternative means for marketing their produce.

5.27 Thus, the scrip part of the payment is not necessarily an indication of the earnings, profit, or income - whatever it may be called - created by the operations of the marketing co-operative. It may be more or less than what could be considered income, depending partly on the freedom of the market for the producers concerned, partly on the value they ascribe to the scrip part of their receipts for their produce, and partly on their willingness to reinvest some of those receipts in the association by holding the scrip. In other words, the non-cash allocations of the proceeds of the marketed products are at best merely a rough guide to what the earnings of the co-operative as a business entity may really be - and at worst no guide at all.

5.28 In the case of the purchasing co-operatives, non-cash allocations cannot be viewed in quite the same way. Under competitive conditions, and with prices charged to members at about the same level as those charged by other firms, patronage dividends of both cash and paper do give an indication of the earning power of the co-operative as a business entity. This would be true whether the paper had a fair market value or not, for it would represent actual funds retained by the association. Where, however, the patron-members are paying more than they need pay else-

where and the patronage dividend merely reimburses them for the difference, it would not constitute business earnings but would be merely a price rebate.

5.29 Even when this distinction is acknowledged, a serious problem remains: how to determine what part of the return made to patrons is business earnings. The less efficient co-operatives may have no real earnings at all; every cent of their patronage dividends - if they can pay any - may be purely price re-adjustment and nothing more. But inefficient co-operatives that hold, in some degree, a monopoly position are likely to have a monopoly profit that not merely subsidizes the hidden losses of inefficiency but permits the payment of substantial patronage dividends. Underlying situations of this sort is, of course, the combination of prices to the patron with the patronage dividends paid to him. Under competitive conditions the co-operative will have to do better for its members than it would where they have no alternative to its services.

5.30 Monopolistic and monopsonistic gains of co-operatives, if not siphoned off in large payments to management, will be returned to patron-members in large patronage dividends which may or may not be in such form as to have a fair market value. Where monopoly[1] power is used in dealing with patrons, presumably through a lower-than-market payment for produce in the case of marketing co-operatives and a higher-than-market price when goods are sold to patrons, the higher resulting patronage dividends may counteract the original monopoly price policy if the dividends are in cash or acceptable

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1 For simplification, the term "monopoly" is sometimes used to include "monopsony".

paper. Here there may be not a true monopoly situation at all, even though the power is present and used; for the exploited are also the exploiters, and the situation merely involves a choice between more or less favorable prices to patrons and less or more in patronage dividends. When, however, prices are made relatively unfavorable to patrons through the monopoly power of the co-operative, and it pays patronage dividends in paper that has no fair market value, the picture becomes somewhat different. Patrons then are obliged involuntarily to invest further in the association.

5.31 On the other hand, where a co-operative has some monopoly power in selling its members' produce to the public, or where it has some monopsonistic power in purchasing supplies to be sold to its members, it may have a monopolistic gain that is not ascribable to any exploitation of its members with their subsequent commensurate reimbursement. There would simply be excess profits just as there would be in the case of any other business organization that had similar control in its dealings with buyers or sellers who did not share in the gains.

5.32 But this case of monopoly earnings is a special one. Even without monopoly advantage, co-operatives can have business earnings similar to those of the ordinary corporations that continue from year to year and prosper to a greater or lesser extent. Such earnings may embody an element of "pure" profit - due, say, to some fortuitous occurrence, favorable price fluctuations, the stage of the business cycle, a lag in the appropriate reward to management, or some other cause but for the most part they arise through productive activities and gainful transactions. This is equally true for co-operatives, ordinary cor-

porations, partnerships, and individual proprietorships.

5.G A Practicable Solution of the Problem

5.33 The core of the problem thus might seem to be a need to determine what part of the net margins of the co-operatives is similar to the taxable income of ordinary corporations and what part is properly to be ascribed to price adjustment. At first glance - as it is realized that each co-operative differs somewhat from every other in its methods of operation, its efficiency, and its price and patronage dividend policies - the problem might seem insoluble. It need not be however, if a practicable, though less than perfect, solution is considered.

5.34 Such a solution (although some elements in its application are necessarily arbitrary) would be based on the assumption that when purchasing co-operatives set prices at approximately the prevailing competitive level, or when marketing co-operatives purchase from their members at about the current market price, whatever gain accrues after allowance for all costs, including depreciation, represents business earnings that are at least roughly comparable to the taxable income of ordinary corporations.

5.35 It may be objected that if instead of selling (in the case of purchasing co-operatives) or buying (in the case of marketing co-operatives) at prevailing prices, an association increased its net margin by charging its patrons higher prices than those prevailing or paying lower-than-market prices for its patrons' products, that part of the net margin ascribable to the deviation of the co-operative's prices

from market prices should be excludable from its gross income. Let us agree that it should be, but the administrative as well as the compliance difficulties of accurately separating the net margin into two parts, one part taxable and the other not, would be very great. The solution - arbitrary but practicable - is to make the net margins fully taxable but permit the co-operatives to continue to transact business with their patrons at any prices, high or low, that they choose to set. Some co-operatives might decide to maximize their net margins in spite of the tax, although the tax burden at present rates would be a strong deterrent. Others undoubtedly would attempt to minimize their net margins by selling to their patrons at prices as low as possible or buying from them at prices as high as possible.

5.36 In other words, although a co-operative should be free to maximize or minimize its net margins and patronage dividends by choosing whatever pricing policy it prefers, when the pricing is at competitive levels the resulting net margins would be similar to the earnings of ordinary corporations operating under competitive conditions and properly would be subject to similar taxation.

5.H The "Pricing-Out" Question

5.37 It is sometimes supposed that if the net margins of co-operatives were taxable, the co-operatives would set their prices at such a level that only small net margins would be achieved. This possible procedure is referred to as "pricing-out." There would be, of course, no way of preventing it, for co-operatives, like all other businesses, are entitled to set prices as they see fit. But ordinary corporate business

does not fear this kind of competition, and enlightened co-operative management knows that it cannot continue in business very long with unsound pricing policies.

5.38 "Pricing-out" could lead to the destruction of a co-operative if the margin of earnings allowed for uncertainty and error were too small. Some cushioning excess of receipts over expenditures would have to be assured if, sooner or later, through unanticipated changes in costs and prices, as well as in general economic conditions the co-operative were not to find itself in financial straits. The history of the co-operative movement is replete with failures due to pricing that resulted in too small a difference between receipts and expenditures. That price policies might be adopted, to some extent, to mitigate the taxation of net margins is possible, but it is unlikely that the change would be extreme or that it would by any means do away with net margins.

6. THE TAX PRIVILEGE ACCORDED CO-OPERATIVES IS INEQUITABLE AND UNECONOMIC, AND IT DEPRIVES THE GOVERNMENT OF NEEDED REVENUE

6.1 Because equity and economy are fundamental principles of taxation and tax exemption, emphasis here will be placed upon the ways in which the present tax treatment of co-operatives' income violate those principles with consequences that are adverse to the public interest. The resulting loss of revenue to the Government, although substantial, is incidental to considerations of equity and economy.

6.A The Privilege Is Inequitable

6.2 There are two grounds for holding that the tax privilege is inequitable: (1) It discriminates between two essentially similar sources of revenue; and (2) it results in an unwarranted competitive advantage for the co-operative corporations.

6.3 As has been shown, the controlling fact in the controversy as to whether co-operatives should be fully subject to the corporation income tax is that they have the same kind of income as that of other business corporations which are subject to the tax. The privilege of deducting or excluding a large part of what is earned by a co-operative is thus an unwarranted discrimination.

6.4 The magnitude of the discrimination and of the tax burden upon the corporations that are fully taxed, is apparent in the rates to which those corporations' income is subject. The rates, to which co-operatives' income also would be subject if the deduction or exclusion of patronage dividends were not allowed, begin at 21 per cent and go as high as 52 per cent.

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6.5 The most pronounced effect of this inequity is upon the competitive position of co-operative and ordinary corporate business organizations that deal in the same products in the same market areas. As tax rates on corporation income increased, what was once a small tax saving for co-operatives became a source of capital that gave most of them a marked financial advantage over their ordinary corporation competitors. Large tax savings permitted many co-operatives to expand far more rapidly than would otherwise have been possible. Tax-free income has continually enabled many of them to increase their facilities and services at an accelerated rate and, also, in numerous instances, to buy out their competitors.

6.6 For the more efficient co-operatives, substantial tax savings also have enabled them to offer prices more favorable to all who might deal with them than could be offered by competing ordinary corporations. To a business with such an advantage, the attraction to potential patrons can be irresistible. Such co-operatives have the power, through their pricing policies, to put equally efficient ordinary corporate competitors out of business. The establishment of new firms that would not have the co-operatives' tax advantage is also undoubtedly discouraged. There is apparent in the discriminatory tax treatment of co-operatives both a subsidy of capital for them and a subsidy of prices for their member-owners. Either subsidy may be given preference, depending upon the policy of a co-operative's management.

6.7 The inequity appears in another important way. Earnings of corporations that are not co-operatives can be capitalized at little more than half the amount

that would be possible were they co-operatives. This is apparent when a co-operative undertakes to acquire an ordinary corporate business.

6.8 For a simple example, using round figures, let us assume that the ordinary corporation employs $5,000,000 of capital and has annual earnings of $1,000,000 before payment of the income tax. Its earnings after payment of the tax would be about $510,000. If, however, it were a co-operative employing the same amount of capital and having the same amount of earnings before payment of income tax, it would have a tax liability of less than $70,000. Its earnings after payment of the tax would be about $930,000. Assuming that the current rate of return on capital invested in this particular kind of business is 10 per cent, a co-operative might be willing to pay as much as $8,700,000 in order to acquire the ordinary corporation and transform it into a co-operative. (Allowance is made for an additional $55,000 per year of income tax - 50 per cent of 3% of $3,700,000 - that would have to be paid because of the enlarged capitalization of the acquired firm.)

6.9 Another ordinary corporation that might have wanted to buy the business could prudently have paid no more than the capitalized value, after taxes, of about $5,000,000. Actually a co-operative might acquire the business for not too much more than the after-tax value of $5 million, for that would be all that the business was worth to its tax-burdened proprietors. By such legerdemain, in which the assets and earning power of a fully taxed corporation are transferred to a corporation subject to a much lower tax, $370,000 of annual earnings or about $3,700,000 of investment value can be

created free and clear for the tax-privileged buyer - the co-operative.

6.10 That co-operatives have acquired, and are continuing to acquire, proprietary businesses both from within and from outside their industries is a well known fact. Perhaps not all such acquisitions are due to the co-operatives' ability to capitalize income freed from taxation, but unquestionably many of them are.

6.11 This is the stark realism of the co-operatives' tax advantage that has instilled fear in the minds of their ordinary corporate competitors, for the latter know that in many cases the co-operatives can either compete them out of business or buy them up at far less than the full capital value of their earnings before taxes.

6.B The Privilege is Uneconomic

6.12 To fortify the argument that co-operatives should be taxed in the same way as ordinary corporations, it is worth-while to show that they are not a superior form of business organization; that their tax advantage impairs competition and leads to a poorer allocation of the Nation's resources than would otherwise occur; and that in cases where co-operatives are equal or superior in efficiency to competing businesses, they have no need for the tax advantage now accorded them.

6.13 For clarity of analysis most economists assume that those who supply the various agents of production - land, labor, capital, and entrepreneurship - seek to obtain the greatest possible return for their participation in the productive process, and that consumers endeavor to maximize their spending power. Presumably, the form of business organization chosen by an entre-

preneur or an entrepreneurial group (whether investors and businessmen seeking a return on capital and profits, or an association of producers or consumers intending to serve themselves through co-operative organization) is that which will enable them to attain most effectively their objective, namely, the greatest possible gain to themselves.

6.14 Whether the business is to be an individual proprietorship, a partnership, an ordinary corporation, or a co-operative depends upon a complexity of circumstances that must be evaluated by those concerned. The urge to maximize opportunity for gain is, however, just as much present in the selection of the form of organization as it is later in the operations of the business. When a co-operative association is the form chosen, it has been determined upon because its prospective owners believe it to be the best means for benefitting themselves.

6.15 Taxes and future tax prospects are important considerations in deciding upon the form that an enterprise will take. If taxes are inordinately high and fall upon business very unevenly, they influence that decision. Since the earnings of co-operatives are largely free of tax at the co-operative level, so great an advantage for co-operative enterprise must often weigh heavily in the balance when that form of organization is chosen.

6.16 If co-operatives, free of subsidization or tax advantage, could be shown to be economically superior, a strong though not completely positive case might be made for their encouragement and extension, although whether encouraged or not, they would surely tend to become the predominant form of business organization.

However, there appears to be no common characteristic of co-operatives that could make them an economically superior form of business organization.

6.17 The inequity and the uneconomic distortions due to the tax advantage are conducive to actual and potential monopoly power in various degrees for many co-operatives. Government favoritism for the co-operatives in other ways besides that of tax subsidization may also increase the co-operatives' competitive advantage.

6.18 Within a particular co-operative, of course, the members have ceased to compete among themselves in marketing their products or in purchasing services or supplies. As co-operatives have joined together in federations, and they too have ceased to compete among themselves, they have formed larger, stronger organizations for advantageous bargaining in a broader area of the economy. In the trend to co-operative federation and co-operative integration of various stages of production and marketing, competition within ever larger groups has been done away with and bargaining power has been greatly enhanced.

6.19 Thus, the monopoly power of co-operatives, as it is derived from integration and from Government favoritism in various ways, and as it is enhanced by the tax privilege, presents a grave problem not only for the co-operatives' unfavored and fully taxed competitors but for the national economy. Such institutionalized favoritism in the course of time conceivably can change the nature of the economic system.

6.20 It is an established and widely accepted principle in economics that the freer markets

are from monopolistic and other restraining or distorting influences, that is, the more fairly competitive the economic system is, the closer the economy will be to the most economical use of its resources. This is the underlying principle of the free competitive enterprise system.

6.21 As for the effects of monopoly or monopolistic elements upon the productivity of an economy, there is great accord among economists. Practically every text that deals with economic analysis draws the same conclusions. (The full analysis is mathematical and somewhat elaborate and complex.[1]) Summarized, those conclusions are that where a monopolistic element exists: output is lower, prices are higher, employment is less, and resources are less effectively allocated than where competition is unhampered.

6.22 A co-operative, when it lacks monopoly power or special privilege, is a competitive business entity. Its survival and growth depend, then, upon its efficiency, which in turn depends upon the wisdom of its directors in larger matters of decision and upon the ability of its management at the operational level. Its value to the nation is determined by the real costs at which it provides its services. Like any firm in a freely competitive situation, its survival depends upon relatively low unit-cost of output that is, upon the economical application of labor, capital, and managerial effort to the particular productive processes in which it engages. The co-

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1 See, for example, Kenneth E. Boulding, Economic Analysis, revised edition (New York: Harper and Brothers, 1948), Chapters 25 and 26.

operative way of doing business is as good a way as any other when it has no special privilege and can survive under competitive conditions.

6.23 If, however, to a greater or lesser extent, a firm - whether it is a co-operative or any other form of enterprise - is subsidized by a tax advantage, a part of its real costs of operation is borne elsewhere in the economy, directly by Government and indirectly by all who contribute to pay the expenses of Government. Because the tax subsidization of co-operatives has been conducive to the establishment and survival of higher-cost, less efficient business units throughout the economy than would otherwise be possible, this is not to say, however, that all co-operatives, because they enjoy a tax advantage, are high-cost inefficient businesses.

6.24 The subsidy that the tax advantage gives all co-operatives, except those that have no earnings at all and so would not be subject to an income tax, permits many of the inefficient and uneconomically operated ones to survive when otherwise they could not do so; and it permits the more efficient co-operatives to expand their operations beyond what would be a point of insufficient return were their earnings from that expansion subject to tax. Underlying this statement is the fact that every business must produce a sufficient return on the capital invested in it or in due time the capital will be shifted to some more profitable investment.

6.25 If, for example, the going rate of return on capital used in business is 5 per cent (after an allowance in earnings has been made to compensate for

the risk involved in the investment), a firm earning only 4 per cent is comparatively inefficient. Firms earning even less than that or sustaining losses are, of course, even more inefficient. Under free competitive conditions, those that remain inefficient tend to be liquidated, the part of their capital that has not been dissipated being transferred to better paying opportunities. Under such conditions there is a continual shifting of capital from business activities that are less productive of earnings to those activities that earn more because they are more needed or wanted for supplying the public with goods and services.

6.26 Thus a Nation's capital resources continually tend to be used at their highest possible level of productivity when no obstacle, such as tax subsidization, hampers or prevents that shifting. Likewise, the effort of workers, the Nation's human resources, is most productive when it is not induced by tax subsidization, or some other arbitrary influence, to remain in comparatively inefficient business situations.

6.27 Co-operatives range in efficiency from a very high level to the very lowest where survival hangs from day to day on a thread of chance. Also along this same continuum of efficiency are all ordinary corporate businesses, except that the respective firms - so long as they have some earnings that are subject to tax - will have smaller net earnings after tax than the net earnings of the equally efficient but tax-favored co-operatives.

6.28 If, except for the co-operatives' tax advantage, an ordinary corporation and a co-operative

were equal in every respect, including the amount of their earnings and the percentage of earnings to capital, the earnings of the ordinary corporation after payment of the income tax would be much less than the after-tax earnings of the lightly taxed co-operative. For example, if under the present tax statute each earned $100,000 in a given year, the proprietary corporation's earnings after tax would be $60,150, but the co-operative's earnings after tax would be $90,000 to $100,000 depending upon its capitalization and the extent of its borrowings. If the capital of each were $1,000,000, the return on the proprietary corporation's capital would be about 6 per cent and the return on the co-operative's capital would be 9 to 10 per cent, the higher figure being realized in situations where the co-operative employs substantial borrowed funds on which the interest would be deductible from taxable income.

6.29 Again, for example, if a proprietary corporation continually has earnings that are little more than sufficient to reward capital at the current rate but those earnings are reduced by from 21 to perhaps 52 per cent because of the income tax, that business thereby becomes submarginal and in the longer run its failure or liquidation is almost assured. But a co-operative of no better than equal efficiency may survive because its tax burden is smaller. Under present tax conditions, where earnings fluctuate widely from year to year an ordinary corporation will have much less surplus that can be set aside to sustain it in the lean years than has a co-operative of similar size and

efficiency.

6.30 There is no way to determine just how many proprietary corporations have dropped by the way because of inroads made on their earnings by the income tax; nor can it be known how many never came into existence because marginal co-operatives could survive but proprietary corporations at, or well above, the same level of business efficiency, could not. It is the marginal and near marginal co-operatives (and the part of the operations of other co-operatives that is an extension made possible only by tax advantage) that use a part of the Nation's resources less effectively (and therefore wastefully) than they might be used by businesses that because of tax discrimination either cannot come into existence, stay in existence, or expand to their optimum level of productivity.

6.31 When the effect of some co-operatives' uneconomic operations is made up for or exceeded, so far as those particular co-operatives are concerned, by the gain through their tax advantage, the loss is borne first by the Government and finally by the whole economy. However, a distinction must be made between co-operatives that are at least as efficient as their ordinary corporate competitors and those that are less so. In a relatively free market economy, where there were no tax advantage, the less efficient co-operatives and the less efficient proprietary corporations both would tend to disappear; the superior businesses, whether co-operative or otherwise, would remain.

6.32 When a co-operative is inefficiently operated, it may continue its inefficient operations indefinitely; and though the diseconomy may be con-

cealed, it is shifted through the tax privilege so that it becomes a charge upon the rest of the economy. When the co-operative is so inefficiently operated that the tax subsidy just enables it to stay in business no one gains (the members of the co-operatives could do as well by dealing with a proprietary corporation) and everyone who is a taxpayer loses.

6.33 But when a co-operative is sufficiently well operated so that some part or all of its tax subsidy is not needed to keep it in business, the part of the subsidy not needed to cover what would otherwise be loss becomes a gain to the owner-members, whether it is distributed to them as patronage dividends or in especially favorable prices.

6.34 Thus, whether the members of a co-operative gain the whole amount of the tax subsidy or only the part of it not needed to cover loss, the entire amount of the subsidy is paid through taxation by the rest of the economy. The question why everyone else should thus contribute to members of co-operatives has never been satisfactorily answered. That gain has no justification, for the recipients have done nothing to entitle them to it. It results entirely from the fact that they are owners of a highly tax-favored kind of business corporation rather than owners of a corporation that is subject to the high rates of the income tax.

6.C The Privilege Deprives the Government of Needed Revenue

6.35 There is no accurate way of determining how much revenue is lost by the Government through the tax privilege accorded co-operatives. A reasonable

estimate would appear to be in the region of $25,000,000 annually.[1] The addition to the Government's receipts of some such amount would ease somewhat the fiscal problem, or it could lessen somewhat the over-all tax burden. However, this loss of revenue to the Government is of small significance compared with the inequitable and uneconomic effects of the tax discrimination, the losses from which, although indeterminable, may be many times the amount of lost revenue.

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1 Perhaps another $25,000,000 of revenue loss is due to the tax-exempt status of credit unions, which thereby have an advantage over their ordinary corporate competitors in much the same way as the co-operatives have an advantage over their ordinary corporate rivals. A reasonable estimate of the total income tax subsidy to Canadian co-operatives and credit unions is therefore in the neighborhood of $50,000,000.

7. THE CO-OPERATIVES' TAX ADVANTAGE PROMOTES THE DEVELOPMENT OF A CO-OPERATIVE STATE

7.1 The ideological goals of a Co-operative Republic and a Co-operative Commonwealth (the former to be a nation-wide and the latter a world-wide economic system comprised largely or entirely of co-operatives) may not be as visionary as many defenders of the free competitive enterprise system like to suppose. Although the economies of Canada and the United States are still far from being largely made up of co-operative businesses, the substantial progress of the co-operative movement in both countries in recent decades may foreshadow a further and perhaps accelerated development.

7.2 How far the co-operative movement may be carried by the impetus given it from present tax provisions so favorable to it cannot clearly be predicted. Although co-operatives even today are a comparatively small part of the business structure in Canada and the United States, this does not mean that in the long run they could not become the dominant business form. The ordinary corporation, not too long ago, was the exceptional form of enterprise, but it became a common form because of the economic and financial advantages it afforded for many kinds of business. The tax advantage now accorded the co-operative form of organization may be similarly fostering, although without similar economic and financial justification, a great extension of co-operative enterprise.

7.3 A co-operative state and a co-operative world are goals sought by idealistic individuals who believe that through the application of co-operative principles to practically all economic activity a new

and better way of life can be found. Such persons represent an extreme segment of the many who see in the co-operative way of doing business various degrees of merit. Of the several million members of co-operatives in Canada and the United States, only a small percentage envision the co-operative millenium. Most of them are matter-of-fact, down-to-earth individuals who are reasonably satisfied with the prevailing economic system. They look upon their co-operatives as an integral part of that system and as one of various means by which they can further their own material interests. Although most members of co-operatives have no interest in a wholly co-operative economic system, they have generally taken for granted, and regarded as benign, the marked tax advantage Government has accorded the co-operative movement, not realizing the longer run effects of such discrimination upon the system under which the great majority of them have prospered.

7.4 The proponents of the Co-operative State seem to agree that it would be based on a collective rather than a free-market economy; that it would be a variant of socialism or communism; and that it would evolve gradually at first, within the present system and without the violence of sudden revolution, although its achievement would be, in effect a revolution of the economic order.

7.5 Ernest Poisson, an outstanding authority on the co-operative movement, has said:

> "The complete Co-operative Republic, like the Social Republic, would achieve collective ownership of the means of production and exchange. Co-operative organi-

zation and socialization are thus two allied if not synonymous terms.....

"Certain socialists in describing their ideal have indeed said that they conceive society as a huge co-operative organization. Did not Kautsky, the great Marxian theorist, write 'What is the socialist system if it is not a co-operative society extended and universalized?'.....

"Nevertheless the Co-operative Republic possesses the peculiar attribute of being now and henceforth, in the very midst of capitalism, the rudimentary form of that new society in which there shall be no classes...."[1]

7.6 The well-known British authority on communism, Harold J. Laski, saw in the co-operative movement a trend opposed to capitalism:

"The essence, I say, of Co-operation is a denial that the profit-making motive can ever produce a just or humane society. My inference from this is the vital one that between co-operation and capitalism there can be no peace. They are mutually exclusive conceptions of society."[2]

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1 Ernest Poisson, The Co-operative Republic, translated from the French by W. P. Watkins (London: T. Fisher Unwin Ltd., 1925, pp. 89, 92, 100, 104-5, 109.

2 Harold J. Laski, The Spirit of Co-operation (Manchester: Co-operative Union, Ltd., 1936(?), p. 8.

7.7

7.7 If the Co-operative Republic and the Co-operative Commonwealth could be achieved, almost certainly they would be far less democratic than their idealistic proponents imagine. The basic principles of simple co-operation of the Rochdale type could not conceivably apply to a state of complete co-operative activity. Membership could not participate in management, and membership control over management would, at most, be remote and indirect. That is already the case with the larger co-operatives and federations of co-operatives. It would not be less so in the Co-operative Republic.

7.8 If the co-operative movement were sufficiently extended, the fundamental difference between the profit-maximizing motive of the producer co-operatives and the consumption-maximizing motive of the consumer co-operatives probably would mean the eventual absorption, control, and operation of the producer co-operatives by the consumer co-operatives.

7.9 There would be a complete monopoly of the economy - a monopoly the movement's partisans might say, of the consumer, by the consumer, for the consumer. They overlook the likelihood that not only in the role of consumer but also in that of worker and investor, the individual's wants would be subordinated to the requirements of the great co-operative machine. The individual would relinquish his sovereignty as consumer, which he enjoys under a system of free enterprise and free markets and which now directs production to meet his demands. As worker and investor he would have no choice but to serve the great national co-operative. The attainment of the co-operative economy would almost certainly mean the subservience of the individual to the

group.

7.10 Other implications for individual freedom need merely be mentioned, for they are the same that would obtain under any other system of collectivism. Economic planning and control, whether by Government officials or by the top management of a nation-wide, over-all co-operative (which would soon either fall into the hands of Government or become Government itself), could mean the power of life and death over the individual. It would be the sole employer of labor and the sole purveyor of the means of sustenance. It could punish and reward as each case seemed to require. Who could speak out against it or seek to change the established order?

7.11 If it were not for the very substantial tax advantage accorded co-operatives, one would not need to give a second thought to the possibility of a Co-operative State. Only under the most favoring and artificial circumstances, including grossly inequitable tax favoritism, could that system come about. The two points to be made here are: first, that the co-operative way of doing business is not necessarily the most efficient and economical way, and that therefore under freely competitive conditions co-operatives cannot displace all other forms of business; and second, that only under long-continued, heavy subsidization of co-operatives, at the expense of other forms of business, could they conceivably gain the necessary ascendancy by which to resolve themselves into a complete co-operative society.

8. THE PLACE OF CO-OPERATIVES IN A FREE-ENTERPRISE SYSTEM

8.1 When seen in perspective, the place and role of the co-operative in a free-enterprise system is not difficult to determine. There the co-operative is simply one of a variety of profit-seeking business organizations. It is in competition with other forms of business and may be in competition with other co-operatives as well. A particular co-operative may be superior or inferior to its business rivals in the efficiency of its operations, depending upon a combination of circumstances, but it cannot be a more efficient business entity just because it is a co-operative. The supposition that somehow it is therefore more efficient is the major fallacy of the co-operative movement.

8.2 In a competitive economy each business firm finds its place and survives or fails on the basis of its ability to use manpower and capital more effectively. That no economy can be perfectly competitive - though its drive may continually be toward that ideal - cannot be an argument to justify privilege and monopoly practices for either the co-operative or other forms of business.

8.3 How can it be proper public policy, then, to favor the establishment, growth, and expansion of co-operatives if they are not a superior form of business? And if it could be shown that they are superior, why then should they need favored tax treatment or other special privilege rendered by Government?

8.4 The answer is plain: without subsidy of any kind, each co-operative would find its rightful place in the economy in the same way that other, unfavored,

business must. The whole nation would be better off. Its capacity to produce would be used more fully and effectively. A part of its resources would not be wasted in support of economically inferior business units.

8.5 There is, and always has been, a place for the co-operative in a free economy. How extensive the co-operative form of business may become, and what part of the Nation's total business will be transacted by it, ought to depend solely upon its unsubsidized ability to serve the public economically.

9. CONCLUSIONS

9.1 Under Sections 73 and 75 of the Income Tax Act, co-operative business corporations can and do escape a large part of the tax that falls upon other business corporations.

9.2 Although spokesmen for the co-operatives have formulated doctrines and devised special terminology in an attempt to justify their organizations' tax-favored status, the incontrovertible fact remains that the co-operatives are business corporations earning the same kind of income as that of the fully taxed ordinary corporations.

9.3 Co-operatives are not eleemosynary associations, nor are they partnerships or agencies. They are corporate business enterprises seeking gain for their members.

9.4 The marked tax discrimination favoring co-operatives cannot be shown to be in the public interest, because it leads to less than the fullest use of the Nation's resources.

9.5 The co-operatives' tax advantage could be conceivably the opening wedge for a collectivist society, in which the form of business organization would be predominantly or exclusively co-operative, with all the adverse implications for economic freedom that are inherent in centralized, over-all direction and control of economic processes.

9.6 The loss of revenue to the Government, due to this tax discrimination, although of less importance than the resulting inequities and diseconomies, should be taken into consideration.

9.7 The discrimination is inequitable not

only because it taxes heavily one form of business corporation while taxing lightly another, but also because the whole tax burden is thereby made somewhat heavier for all who have to bear it.

9.8 The present high rates of the corporation income tax have intensified the effects of the discrimination both by making co-operative membership highly advantageous in many instances, and by allowing, through retained earnings lightly taxed, a more rapid expansion of co-operative enterprise than is economically justified.

9.9 The greater profitability and the consequent competitive advantage of co-operatives, due to their favored tax status, have been a strong inducement for some ordinary corporations to sell out to their co-operative rivals or to transform themselves into co-operatives.

9.10 The tax advantage has given some co-operatives the power to destroy or absorb their heavily taxed competitors, even when the latter may be more efficient businesses.

9.11 Under conditions of tax equality, the co-operative corporations would pay the full corporation income tax without allowance for any deduction of patronage dividends, and patronage dividends would be taxed to the recipients in the same way that the dividends of ordinary corporations are taxed to their recipients.

9.12 The problems arising from tax provisions that grossly favor the co-operatives can be solved by legislation that would place co-operatives and their members on the same basis as ordinary corporations and their stockholders with respect to the income tax.

10. RECOMMENDATIONS

10.1 That Section 73 (1) of the Income Tax Act, which provides full exemption from the income tax for three years for newly-formed co-operatives, be repealed;

10.2 That Section 75 of the Income Tax Act be so amended that patronage dividends, whether of co-operatives or of ordinary corporations, no longer be deductible in computing taxable income;

10.3 That patronage dividends be taxed to the recipients in the same way that the dividends of ordinary corporations are taxed to the recipients, and that whatever deduction or credit is allowed for either kind of dividend be allowed for the other.

All of which is respectfully submitted.

Robert T. Patterson

JAN 2 2 1964

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SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

PRESENTED BY

THE EQUITABLE INCOME TAX FOUNDATION

Suite 918, Carlton Tower • 2 Carlton Street • Toronto 2, Ontario

TORONTO, Ontario

JANUARY 23, 1964

THE EQUITABLE INCOME TAX FOUNDATION

SUBMISSION

TO THE

THE EQUITABLE INCOME TAX FOUNDATION

SUITE 918, CARLTON TOWER • 2 CARLTON STREET, TORONTO 2, ONTARIO • TEL: 363-2654

January 23, 1964

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DAVID A. GILBERT,

Vice-President,
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DAVID A. LESSER,
LeRoy Jewellers Ltd.,
Vancouver, B.C.

The Chairman and Members,
The Ontario Committee on Taxation,
Legislative Committee Room No. 2,
Queen's Park,
Toronto, Ontario

Gentlemen:

Re. SUBMISSIONS OF
THE EQUITABLE INCOME TAX FOUNDATION

We are enclosing two separate but related briefs as the official submissions of The Equitable Income Tax Foundation to the Ontario Committee on Taxation.

The Foundation is a voluntary, non-profit organization, established in July, 1962, and granted Letters Patent under Part II of the Company's Act, Canada, dated September 24th, 1962.

The Objects of the Foundation are to conduct constant study, research and investigation into the field of taxation and its effects on the economy of Canada; to propagate the principles of equitable taxation; to make representations to governmental authorities at all levels regarding tax legislation. Bearing in mind these objectives we request that your Committee give careful consideration to these submissions, examine the recommendations and support them. Should you wish to discuss the contents of these submissions at greater length, the writer will be available to meet the Members of the Committee at your request.

The representations we are placing before you are similar to those which were presented to the Royal Commission on Taxation in Ottawa, October 11, 1963. The economic brief prepared by Dr. Robert T. Patterson is unchanged. These submissions are primarily concerned with the extreme inequities present in our existing income tax legislation and are appropriate to your studies for three main reasons:-

THE EQUITABLE INCOME TAX FOUNDATION

SUBMISSION

TO THE

1) Under the new fiscal arrangements in 1962, the provinces have re-entered the corporate taxation field. The Province of Ontario is therefore concerned with the level of the corporate tax base.

2) The submissions are concerned with discriminatory tax treatment in favour of co-operatives. Section X (Page 41) of the Foundation's main submission deals with "Growth of Co-operatives in Canada". While this growth has occurred principally in the Prairie Provinces where the rate of expansion of co-operatives has outdistanced by far the rate of growth of investor-owned business, the same situation is in the course of development in the Province of Ontario.

   Sub-Section "F", starting at Page 62, examines co-operative activity 1961-1962 and devotes particular attention to co-operatives in the Province of Saskatchewan. Statistical data on co-operative and credit union activities is more readily available from the Province of Saskatchewan than from the other provinces in Canada and it is for this reason that Saskatchewan has been singled out for special analysis.

3) Section XII (Page 87) deals with the consequent loss of taxation revenues to the Federal Government and to the Province of Saskatchewan. The loss of tax revenues in the Province of Ontario, resulting from income tax concessions to co-operatives and the tax exemption of credit unions, would be in corresponding proportion.

The Foundation's main submission is supported by an economic study written by Robert T. Patterson, M.A., Ph.D., Economic Consultant to The Equitable Income Tax Foundation. Dr. Patterson is on the staff of the American Institute for Economic Research, Great Barrington, Massachusetts, U.S.A.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

THE EQUITABLE INCOME TAX FOUNDATION

David A. Gilbert

David A. Gilbert
President

THE EQUITABLE INCOME TAX FOUNDATION

S U B M I S S I O N

TO THE

ONTARIO COMMITTEE ON TAXATION

TORONTO, Ontario — January 23, 1964

S U M M A R Y

Mr. Chairman,
Members of the Commission.

(1) Two separate but related briefs are filed herewith, for the attention of your Commission on behalf of The Equitable Income Tax Foundation. These submissions are presented to you in essentially the same form as they were submitted to the Royal Commission on Taxation in Ottawa, October 11th, 1963. While the scope of these representations falls within the Terms of Reference of the Carter Commission, we respectfully suggest that these studies are a proper subject for your consideration. We ask that you examine our recommendations carefully and give them support. The main submission is summarized below. The supporting brief is an economic study of 'The Tax Treatment of Co-operatives and the Economic Effects of their Present Tax-Favored Status' by Robert T. Patterson, M.A., Ph.D., Economic Consultant to The Equitable Income Tax Foundation. Dr. Patterson is an Economist on the staff of The American Institute for Economic Research, Great Barrington, Mass., U.S.A.

(2) The EQUITABLE INCOME TAX FOUNDATION is of comparatively recent origin and its aims and objects are set out in Chapter I of our submission. As will be seen, and as indeed is implicit in the Foundation's name, its principal concern is with the problem of existing inequities in the Canadian tax structure, with particular reference to the income tax field.

(3) The establishment of the Foundation has been underway for the past two years and it was granted Letters Patent at Ottawa, September 24, 1962, to fill a gap which it was felt existed

arising from the fact that other foundations and associations of a general nature, which normally speak on behalf of taxpayers and the business community at large, as well as individuals and groups representing particular segments of the community, might be reluctant, by reason of their membership, constitutional limitations or business interests, to deal adequately and on a sufficiently broad basis with the subject matter of our brief.

(4) It was obvious from the outset that there were two principal areas of tax inequity and discrimination which transcended all others and it was decided, in the interests of an effective presentation, that we should concentrate on these. You will, accordingly, find that our submission is mainly concerned with the problem of the competitive tax advantages enjoyed over their ordinary business rivals under the existing law by

a) Co-operatives and those carrying on their activities under the co-operative guise, and

b) Credit Unions (including Caisses Populaires, as they are called in Quebec),

as well as with the effect thereof on the Canadian economy.

(5) It has been suggested, I understand, that THE EQUITABLE INCOME TAX FOUNDATION is some sort of a pressure group organized to fight the co-operative movement. This is entirely false. It represents no particular group but rather speaks on behalf of taxpayers of all segments of the economy who are interested in the maintenance of the competitive free enterprise system to which that economy is supposed to be dedicated. Indeed, as our submission makes quite clear, we are not opposed to co-operatives or credit unions or caisses populaires as such; our quarrel is with the particular provisions of the existing

law which enable the now important and rapidly mushrooming segments of the business community co-operatives and credit unions have become to secure preferred tax treatment and to escape payment of their fair share of the tax burden at the expense of taxpayers generally and, in particular, of their ordinary business competitors who must pay full taxes.

(6) In Chapter II of our submission (pp. 4 - 9) we set out what we consider to be the three basic principles of sound taxation; namely, that it must be productive, impose as little hindrance as possible on the economy and bear equitably on all taxpayers, due regard being had to ability to pay. We then emphasize the importance of income taxes as a source of revenue, pointing out that, next to personal income tax which accounts for some 30 per cent of total revenues, corporate income tax is the largest single source of revenue, accounting for some 20 per cent of the total. It is, of course, in this last mentioned field that the inequity and discrimination to which we allude exists.

(7) Chapter III (pp. 9 - 15) contains a history of the evolution of co-operatives from the early simple self-help days of the Rochdale pioneers down to the highly integrated and commercialized organizations which we know in Canada today. No particular comment is necessary other than to note that, under the law as it now stands, with emphasis on "payment" of so-called patronage dividends as the means of avoiding income tax, the incentive for co-operatives to operate on a true agency basis has largely disappeared and they have reacted accordingly.

(8) In Chapter IV (pp. 15 - 24) the history of the Canadian income tax laws as they have affected co-operatives from 1917 to date is given. This history falls naturally into three periods, as follows:-

a) 1917-1930, during which tax liability of co-operatives turned on whether or not income was earned;

b) 1930-1946, from the introduction to the repeal of Section 4 (p), under which the exemption from income tax was accorded to organizations operated on a co-operative basis if they fell within the definition of the section, and

c) 1946 to date, under the legislation enacted in implementation of the Report of the McDougall Royal Commission on Taxation of Co-operatives, the basic concept of which was to make all co-operatives in receipt of income liable to taxation but to permit deduction from taxable income, by both co-operative and ordinary forms of business, of so-called patronage dividends "paid" to customers.

The McDougall Commission, faced with numerous complaints of discrimination in favour of co-operatives as a result of the application of Section 4 (p) and, having concluded that co-operatives did in fact earn income in respect of which they ought to be taxed in the same way as ordinary businesses, sought to solve the difficulty by recommending the abolition of Section 4 (p) and substitution of provisions for the deduction from taxable income of all payments in accordance with patronage, whether made by co-operatives or ordinary businesses, provided such payments were made in cash or its equivalent or credited in exigible form in a stated short period following the year to which they related. Parliament, in 1946, adopted this suggestion by enacting what appears in the present Income Tax Act as Section 75 (1). Unfortunately, however, the essential feature of the scheme requiring payment in cash

or its equivalent (i.e. actual disbursement) was lost sight of by the adoption of the purely arbitrary definitions of the word "payment" which are to be found in Section 75 (4)(f). These notional payment definitions completely negative the requirement of immediate cash payment or disbursement and have enabled co-operatives, which alone can take advantage of them, to declare so-called patronage dividends on an indefinitely deferred basis, which they claim as deductions from taxable income while indefinitely retaining the funds in question for use in building up their businesses to the great competitive disadvantage of their ordinary tax-paying competitors. Moreover, because ordinary corporate businesses do not have members with whom they do business, the payments were to be made to "customers". Thus, even cash payments made by co-operatives to their customers (who by and large were also members) were the effective equivalent of a return to such members on capital invested in the business. On the other hand, payments made by ordinary corporations to their customers (who were rarely if ever shareholders) represented no more nor less than cash rebates. This again has given rise to heavy competitive advantage in favour of co-operatives. These two features constitute the nub of the discrimination problem and are dealt with in the second half of Chapter IV (pp. 20 et seq.). Reference is also made in this chapter to the provisions of Section 73 and 62 (1) and 62 (1)(k) of the Act whereby Parliament adopted the recommendations of the McDougall Commission to exempt newly formed co-operatives from payment of income tax for the first three years of their existence and to continue the total exemption of credit unions which had been in existence from the beginning and was apparently not regarded at that time as being of commercial significance. Sections 61 (1), 61 (1)(k), 73 and 75 of the Income Tax Act are reproduced for convenience as Schedule "B" to our submission.

(9) Chapters V and VI (pp. 24 - 33) classify present day co-operatives by relation to their income tax status and dispose, we believe successfully, of the usual arguments put forward by co-operators in support of the proposition that they should be accorded tax exemption or other special tax treatment. No particular comment on these chapters is required here.

(10) Chapter VII (pp. 33 - 36) is short but nonetheless important. It deals with the subject of "patronage dividends" and emphasizes two main points:-

1. That payments in accordance with patronage, when made by a co-operative to its members, are just as much a return on capital invested as are ordinary corporate dividends paid to shareholders, and

2. That payments in accordance with patronage made to customers, which is the only avenue open to ordinary joint stock companies who do not have members and only do business with their shareholders rarely and by accident, are no more nor less than price rebates.

(11) In Chapter VIII (pp. 36 - 38) we draw attention to a difference between British and Canadian taxation laws affecting co-operatives, which make comparisons between the situations in the two countries substantially meaningless at the present time.

(12) Chapter IX (pp. 38 - 41) gives concrete examples of the extent of tax discrimination in favour of co-operatives as against ordinary corporations under the present law and is self-explanatory.

(13) Chapter X (pp. 41 - 77) reviews in detail the extraordinary growth of co-operatives and their business activities in Canada, and is supported by numerous statistical tables annexed to the brief, to which the attention of the Commission is respectfully directed.

(14) Chapter XI (pp. 77 - 86) deals with the extent to which large co-operatives have been and are expanding and developing integrated and widely diversified commerical operations. Detailed factual information in this connection is given as to two specific examples of large co-operatives and their multifarious activities.

(15) Chapter XII (pp. 87-88) draws attention to the serious loss of tax revenues which results from the preferred treatment accorded co-operatives.

(16) Chapter XIII (pp. 88 - 104) deals in detail with credit unions and caisses populaires and their recent rapid growth and expanding activities. It again is supported by further statistical tables annexed to the brief. This chapter clearly demonstrates that these organizations, whatever may have been their simple origin, are now actively engaged in business for business' sake on a very large and rapidly expanding scale and that they are patently assisted in so doing by the exemption from income tax which they continue to enjoy to the great disadvantage of their tax-paying competitors. It may be said in this connection that almost all of this growth and expansion has occurred since the last war and largely since the McDougall Commission recommended continuance of tax exemptions for these organizations, under the clear misapprehension that they were, as they then doubtless appeared to be, merely of a local and relatively inconsequential nature.

(17) Chapter XIV (pp. 104 - 108) stresses the obvious fact that co-operatives, credit unions and caisses populaires enjoy the same benefits as their tax-paying competitors from the government activities which necessitate the securing of income tax revenues, yet contribute relatively little or nothing thereto.

(18) Chapter XV (pp. 108 - 109) deals with the so-called "pricing-out" problem. It is only necessary to say here that, while pricing-out might have been practical in the case of the simple early agency co-operative, and indeed was the essence of the co-operative idea, it cannot as a practical matter be employed in the large commercial operations in which co-operatives now engage.

(19) Chapter XVI (pp. 109 - 110) deals with the income tax position of the recipients of so-called patronage dividends and concedes that in appropriate cases they should be afforded the same treatment as recipients of ordinary corporate dividends.

THE CONCLUDING CHAPTER XVII (p. 110) sets out our recommendations which are as follows:

"1. That net profits be taxed prior to deduction of patronage dividends;

2. That the privilege now granted new co-operatives of being excused from taxation during the first three years of their existence be abolished;

3. That the exemption from taxation now granted credit unions and caisses populaires be abolished and that they be required to pay tax on their net profits prior to deduction of patronage dividends; and

4. That patronage dividends of non-agency co-operatives, both consumer and non-consumer, be accorded in the hands of recipients the same treatment as the dividends paid to shareholders of corporations."

RESPECTFULLY SUBMITTED

David A. Gilbert

President,
THE EQUITABLE INCOME TAX FOUNDATION

ROYAL COMMISSION ON TAXATION

SUBMISSION OF

THE EQUITABLE INCOME TAX FOUNDATION

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SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

PRESENTED BY

THE EQUITABLE INCOME TAX FOUNDATION

Suite 918, Carlton Tower • 2 Carlton Street • Toronto 2, Ontario

TORONTO, Ontario

JANUARY 23, 1964

THE EQUITABLE INCOME TAX FOUNDATION

SUBMISSION

to the

ONTARIO COMMITTEE ON TAXATION

TORONTO, Ontario JANUARY 23, 1964

I. INTRODUCTION

A. THE FOUNDATION

This submission is presented on behalf of The Equitable Income Tax Foundation which was established in July, 1962, and granted Letters Patent under Part II of the Companies Act, Canada, dated September 24, 1962. It is constituted as a permanent, voluntary, non-profit organization with aims and objects as follows:

a) To encourage study, research, and investigation on the subject of taxation and its effect on the economy of Canada, and, in particular, to study the adverse effects of inequitable taxation on the economic growth of Canada;

b) To publish and disseminate information on taxation and related subjects and propagate the principles of equitable taxation;

c) To study the various taxing statutes and regulations of the Dominion and the Provinces of Canada and to make such representations to Governmental authorities at all levels regarding tax legislation as may seem desirable as a result of the study, research and investigation carried on by the Foundation.

As of the date hereof, the membership of the Foundation totals 60,000 divided into four classes appropriate to the interests of the different types of members. The members are representative of every region in Canada from the Maritimes to

British Columbia. Those in business are enrolled as 'ordinary', 'sustaining' or 'affiliate' members. Individuals are enrolled as 'personal' members. It is the policy of the Board of Directors of the Foundation to welcome to membership all those who are interested in supporting and furthering the aims of the Foundation.

B. SCOPE OF SUBMISSION

As the name and objects of the Foundation indicate, its principal function is to promote the equitable distribution of the tax burden in Canada so that all those who benefit from government and governmental services will as nearly as possible be called upon to pay their fair share. Tax discrimination in favour of one individual or group, and particularly where considerations of business competition are involved, must in our submission be avoided at all costs, and where such discrimination exists it should be eliminated by appropriate legislative and administrative action.

In the entire field of taxation in this country we have found nothing to equal the discrimination which exists under the present income tax law in favour of two groups, namely:

(1) The Co-operatives and those purporting to do business under the co-operative guise; and

(2) The Credit Unions and Caisses Populaires.

Such discrimination, and the competitive advantage it gives these groups over their ordinary business rivals, we believe presents a definite and constantly increasing threat to the Canadian economy which cannot longer be safely ignored.

We have therefore decided to concentrate on this problem in the present brief, which will deal with the factual and legal aspects of the matter. At the same time we have commissioned the

preparation of a separate but companion brief dealing with the broader economic considerations involved. To that end, the services of Dr. Robert T. Patterson, of Great Barrington, Mass., U.S.A., an eminent authority on the subject associated with the American Institute for Economic Research, have been retained. Dr. J.R. Petrie, the well known Canadian Consulting Economist, of Montreal was also originally associated in the preparation of this economic brief, but due to severe illness recently suffered he will be unable to participate in its presentation.

C. TERMS OF REFERENCE

The specific sections of the Commission's Terms of Reference with which the Foundation's submission will principally be concerned are as follows:-

a) The distribution of burdens among taxpayers resulting from existing rates, exemptions, reliefs, and allowances provided in the personal and corporation income taxes, estate taxes and sales and excise taxes, taking into account also the jurisdiction and practices of the provinces and municipalities.

b) The effects of the tax system on employment, living standards, savings and investment, industrial productivity, and economic stability and growth.

c) Provisions in existing laws which may have given rise over the years to anomalies or inequities or which may require action to close loopholes which permit the use of devices to avoid fair taxation.

d) The changes that may be made to achieve greater clarity, simplicity and effectiveness in the tax laws or their administration.

II. TAXATION AND ITS EFFECTS

A. PRINCIPLES OF SOUND TAXATION

Most authorities on taxation are agreed that taxes, to be sound, must meet the following tests:-

1) They must be productive,

2) They should impose as little hindrance as possible on the Economy, and

3) They should be imposed equitably between taxpayers.

The Foundation's interpretation of these principles is as follows:-

1) Taxation must be productive

With the constantly increasing demands on the Federal Treasury, no taxation system can be considered adequate unless in the long run it meets those demands. Whatever the merits or demerits of deficit financing, it cannot be denied that the result of a perpetual policy of deficit financing must be inflation, which will imperil and eventually destroy the stability of the economy.

While deficit financing on a cyclical basis may be justified, on balance taxation revenues in good years must compensate for the deficits of poor years, and to accomplish this long-term objective sufficiently productive taxation must be found. A tax system which, through discrimination or otherwise, tends to dry up the source of revenue to which it is directed, cannot be considered productive.

2) Taxes should impose as little hindrance as possible on the Economy

While taxation may never be a positive factor in the

encouragement of economic growth or prosperity, it can, if improperly applied, have a very serious negative effect on both prosperity and the growth of the nation's economy. Income taxation should be arranged so that interference with the economy is kept to a minimum.

Tax concessions to one segment of the economy, however laudable their original purpose may have been, are inherently undesirable. The overall tax bill is indivisible and any taxes which one section of the economy escapes must be paid by some other. While short-term benefits may be gathered from the use of incentives, no such incentives should ever take a form in which they are only available to a specially constituted type of business among a class of business rivals.

3) Taxes should be imposed equitably between taxpayers

Equity between taxpayers, which embraces equality between taxpayers similarly placed, is desirable as a matter of simple justice. There is no room here for expediency displacing justice and equality.

Closely linked to this principle is the consideration that the level of taxation imposed should bear a relationship to the ability to pay. Indeed, equity requires that any system of taxation should automatically take account of the taxpayers' paying ability.

Moreover, unjustified exemptions beget pressures for countervailing exemptions, equally unjustified, with the ultimate result that the whole tax structure becomes eroded.

B. EFFECTS OF TAXATION

1) On Individuals

Individual taxpayers have over the years become accustomed to paying substantial rates of personal income tax. However, whenever personal rates of tax become excessive, incentives to work hard, to embark on new commercial endeavours and to take commercial risks, are all discouraged. To the extent that this occurs, the country's economic growth is inhibited, productivity is retarded and employment opportunities are restricted.

2) On Business

(a) Corporate Taxation and its Contributions to the Federal Treasury

A major part of the national revenue is derived from corporation income tax imposed on industry.

For the taxation year 1962-63 the government forecast a budgetary revenue of $5.8 billion from all Federal tax sources. The most important source of budgetary revenue for the year is the yield from personal income tax payments of $1,784,000,000 (30 per cent of the revenue). Next in importance is the corporation income tax amounting to $1,168,000,000 (20 per cent of budgetary revenue). Sources of the balance of the revenues needed to finance the manifold operations of the federal government are non-resident tax, succession duties and estate tax, sales tax, excise taxes, excise duties, customs import duties and miscellaneous. The pattern of revenue sources has varied only slightly in recent years.

The corporation income tax today is, therefore, the

second largest source of Federal tax revenue. The tax rates on taxable corporate income of up to $35,000 range from 21 per cent to 23 per cent after giving effect to federal and provincial legislation. The rates on taxable income in excess of $35,000 are 50 per cent to 52 per cent after giving effect to federal and provincial legislation.

While income taxation as originally imposed both on individuals and corporations was intended to be and largely was levied upon all alike, due regard being had to ability to pay, serious anomalies and exceptions have crept into our taxing laws which have the effect of conferring special tax advantages on certain groups, particularly in the business field. The most extreme forms of inequity in this connection are those found in Sections 62 (1)(k) (Exemptions of Credit Unions), 73 (Three-year Exemptions for new Co-operatives) and 75 (Ordinary Trading Co-operatives) of the Income Tax Act.

The present basis of corporate income tax is onerous and it becomes doubly so where competitors classified as co-operatives escape paying their equal share.

(b) Corporate Taxation - a major expense of all profit-and-loss enterprise

The businesses represented by the Foundation are actively competing in the nation's various industries and governed by the strict disciplines of the profit and loss system. To survive and grow they depend upon efficiency, wisdom in matters of decision and managerial competency at the operational level. As competitors in our complex and highly competitive free enterprise system they are deeply concerned

with the economical application of labour, capital and managerial effort to the particular productive processes in which they are engaged. These businesses are most sensitive to any form of government regulation or taxation which may have the effect or tendency of discouraging investment in enterprise and impede business expansion, especially that of new and small business.

The corporate income tax is, by design, a tax upon business as such. It is based upon the assumption that businesses deal at arm's length with their customers. When they strive to maximize their profits, they also maximize their tax liabilities. The existing high rates of taxation on earned profits then become a consideration of significance to a company's prosperity and, where the government's cut of all major productive effort amounts to approximately one-half, this necessarily influences management's every action.

The most important characteristic of a sound taxation system is equality of incidence. When that equality of incidence is absent, as in the case of businesses organized as co-operatives, the inequitable situation which results is not only grossly unfair to the fully-taxed competitors of co-operatives, but it also endangers the underlying principles of our free enterprise system. Apart from the significance of tax concessions to co-operatives as an impediment to free competition, the continuation of these tax privileges, contributing as they do to the comparative growth of the co-operative movement, has the effect of substantially narrowing the tax base and increasingly shifting a greater portion of the

overall burden to the already over-loaded shoulders of individual and ordinary corporate taxpayers.

Inequities in the tax structure which could be tolerated when the rates were low have become increasingly unbearable since rates attained their present level. In essence, and subject to certain evident limitations, our tax laws virtually permit co-operatives to decide for themselves when and how much tax they will pay.

Having said the foregoing, it should be emphasized that the Foundation has no quarrel with co-operatives as such, nor does it dispute their right to carry on businesses and distribute their profits in any manner they choose. What the Foundation is concerned with is to see removed the tax discrimination co-operatives presently enjoy.

III. THE ORIGIN OF CO-OPERATIVES AND TYPES THEREOF WHICH HAVE EVOLVED

Co-operatives had their beginnings in the United Kingdom in the middle years of the nineteenth century. Most co-operatives formed throughout the world since have claimed to follow the patterns set by these early British organizations.

These first co-operatives were organized by non-business people in economic straits due to the Industrial Revolution who sought through their co-operative endeavours to secure for themselves at cost the necessities of life. These early co-operatives were almost invariably what is now referred to as consumer co-operatives.

Of the early co-operatives, the most frequently referred to was the Rochdale Equitable Pioneers Society, founded on December 21st, 1844. Its founders formulated certain principles and methods of

operation which have been pointed to as a guide for co-operatives ever since. Whilst many co-operatives still refer to the Rochdale principles as their guiding philosophy, the fact is that the moment a co-operative graduates, as almost all of them do, from simple co-operation between the members, to the conduct of business for business' sake, they depart from these principles to an ever increasing extent.

The Rochdale principles can be summarized as follows:-

1. The co-operative was to be controlled on the basis of one member having one vote, regardless of the size of his contribution to the enterprise;

2. Capital supplied, if it was to receive interest, would be rewarded at predetermined maximum levels and no variation would occur with the success or failure of the enterprise;

3. The surplus (or profits) of the co-operative would be distributed to the members in proportion to the volume of business each member transacted with the co-operative;

4. Membership was open to all who could use the co-operative's services;

5. Business was conducted on a cash basis;

6. A percentage of surplus (or profit) was to be diverted for educational purposes;

7. Co-operatives were not to become involved in political or religious controversy;

8. Co-operatives were to provide goods and services of adequate quality;

9. Goods and services were to be sold at the market price.

Certain of the Canadian provincial statutes governing co-operatives define a co-operative as an organization which at least nominally adheres to these tenets.

Early British co-operatives were unincorporated. In 1846 there was passed in England the "Friendly Societies Act, 1846". This legislation was intended chiefly for benevolent, charitable and other non-profit associations. Some co-operatives were incorporated under it, but its provisions were not formed with trading co-operatives in mind and there is some doubt whether the organizations which were so incorporated were properly constituted. The fact, however, that some co-operatives were so established is significant as showing that co-operatives were originally regarded as being of the nature of non-profit, charitable organizations. In 1852, the Industrial and Provident Societies Act was passed, which did contemplate the co-operative type of organization.

In Britain, consumer co-operatives have always dominated the co-operative scene. Marketing and service co-operatives have been established also, but the emphasis has been on providing goods for members at cost.

Here too, however, the diversification of co-operatives into a wide variety of industries and their adoption of a policy of vertical integration - from retailing back through wholesaling into manufacturing - has been evident.

The earliest Canadian co-operatives were related to farming. There appears to have been little co-operative activity on an organized basis until the middle years of the 19th century. In 1861 the first consumer co-operative store was established at Stellarton, Nova Scotia. Other consumer co-operative stores were opened in that Province soon thereafter. All of these early ventures appear eventually to have ended in failure. The earliest successful consumer co-operative in Canada was the

British-Canadian Co-operative Society, established at Sydney Mines in 1906.

Other early co-operative developments in Eastern Canada were:-

1) Development of a farmers' mutual fire insurance company in 1852 in Quebec. The first life insurance company organized on a mutual basis was also founded in 1852.

2) Formation of a farmers' organization, known as the Dominion Grange, in 1877. This organization was a merger of the Quebec and Ontario branches of an American organization known as the American Grange. Activities of this organization extended into the manufacturing and distribution of certain farm supplies, banking and fire insurance;

3) In Quebec, the first Caisse Populaire (Credit Union) was founded in 1900.

In Western Canada, co-operative creameries were established during the 1890's and 1900's and in 1906 the Grain Growers Grain Company (now the United Grain Growers) was formed. Additional co-operatives, both in the marketing and consumer fields, were formed fairly frequently thereafter and as a medium for joint action the Co-operative Union of Canada was formed in 1909.

Co-operative growth, at a fairly modest rate continued throughout the first thirty years of this century. The twenties saw the formation of the three Wheat Pools (grain handling co-operatives in the Prairie Provinces). Other farm marketing co-operatives were also organized at this time.

The depression of the early thirties placed many co-operatives, like many ordinary companies, in financial difficulties. Certain of these co-operative organizations, such as the Wheat Pools,

were granted government financial assistance to enable them to stay in business. The later years of the thirties saw another period of co-operative formation (it was, for instance, during this period that the Saskatchewan Co-operative Oil Refinery was established) but the most significant advances in co-operative activity have taken place since 1940, with rapidly increasing adoption by co-operatives of policies of diversification and vertical integration.

The first legislation specifically dealing with co-operatives was passed prior to Confederation on September 18th, 1865. The Act then adopted was entitled "An Act to authorize the formation of companies or co-operative associations for the purpose of carrying on, in common, any trade or business". The purposes of the Act, as set forth in its preamble, followed very closely the purposes set forth in the English Industrial and Provident Societies Act of 1852.

Following Confederation, the first provincial legislation dealing with the incorporation and operation of co-operatives was passed in Manitoba in 1887. In Quebec, the first "Syndicates" Act was passed in 1902. This Act specifically dealt with organizations formed for "the protection and defence of agricultural interests". In Quebec, co-operative legislation of a more general nature was passed in 1906. In the immediately succeeding years, all provinces passed legislation providing for the organization and incorporation of co-operatives.

A number of co-operative associations have also been incorporated by means of a special Act.

There is no federal legislation specifically designed for co-operatives but incorporation is possible under the Dominion Companies Act and a considerable number of co-operatives are so incorporated. Most of these operate on an interprovincial basis.

The Federal Government and a number of the Governments of the Provinces give encouragement to the establishment and operation of co-operatives, in some instances setting up special departments of co-operation (e.g. Saskatchewan).

Types of Co-operatives

The types of co-operatives operating in Canada today can be divided into five main types as follows:-

a) Consumer Co-operatives

A consumer co-operative -- as its designation implies -- is organized for the main purpose of buying goods for sale at retail to its members and patrons.

b) Marketing Co-operatives

Marketing co-operatives are usually formed by primary producers, such as farmers and fishermen, to dispose of their products. In some instances, large organizations which originally started out as co-operatives engaged in the pooling and marketing of their members' produce, now act as mere handlers or warehousemen for all comers (e.g. the case of the Manitoba, Saskatchewan and Alberta Pools and the United Grain Growers) while the actual disposal of the product is performed by others. In other cases, the co-operatives carry out both the handling and the disposal of all or most of the products supplied by their members.

c) Financial Co-operatives

The most common type of co-operative financial institution is the Credit Union, or as it is known in Quebec, the Caisse Populaire. As was stated by the McDougall Royal Commission on Taxation of Co-operatives:-

> "Information furnished to the Commission makes it clear that co-operative societies

> organized for the purpose of accepting the savings of their members in the form of shares and deposits and for providing a source of credit for their members form an important and a rapidly expanding part of Canadian co-operative development". [1.]

Other co-operative activities in the financial world include co-operative credit societies and trust companies.

d) Insurance Co-operatives

There are in Canada a considerable number of insurance companies operated on a co-operative or mutual basis. Their fields of activity include the insuring of fire, life, hail and general insurance risks.

e) Service Co-operatives

Service co-operatives include housing, electrification, seed cleaning, warehousing, etc.

IV. HISTORICAL OUTLINE OF INCOME TAX LAWS IN CANADA DEALING WITH THE TAXATION OF CO-OPERATIVES

A. CLIMATE IN WHICH EARLY LEGISLATION WAS INTRODUCED

The early history of Canada's income tax laws dealing with the question of co-operative taxation was influenced by three significant considerations:

1) Co-operatives were of comparatively recent development in Canada when income tax was first introduced in 1917.

2) All corporate taxation was at a very low level, the original rate being 4 per cent on earnings over $3,000.00.

3) Canadian legislation was substantially influenced by the attitudes which had been adopted towards co-operatives in Britain.

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1. Report of the Royal Commission on Co-operatives 1945, p. 49.

It is important to remember on this last score, as will be developed at greater length below, that British income taxation so far as it applies to the distributed profits of a company is primarily a tax on the shareholder. There is no double taxation of dividend income, the company retaining in its hands and for its own use the portion of tax which it has deducted from the dividend payments made to shareholders. The system is in contrast to the Canadian one where profits are taxed once in the hands of the corporation and again in the hands of the shareholder, subject to the relief afforded by the 20 per cent dividend tax credit.

The first tax on income in Canada was introduced by the Income Tax War Act of 1917. Under this Act it was provided that:-

> "The incomes of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof ... " [1].

should not be liable to taxation.

The language used in this first Income Tax Act so far as co-operatives were concerned was not remarkable for its clarity. There was, for instance, doubt as to whether a co-operative truly was a mutual corporation. Nevertheless, it would appear that co-operatives were largely ignored by the taxing authorities by reason of the above quoted provision as well as the view then generally recognized that co-operatives (i.e. true co-operatives) were in receipt of no income on which they could be taxed.

Since co-operative income, to the extent that there could then be said to be any, was insignificant as compared to present standards and the tax rate was comparatively insignificant also, no great loss of tax revenues was involved and no great competitive advantage accrued to the co-operative over their ordinary business rivals.

However, as time went on and the operation of the larger co-operatives, notably the Wheat Pools were rapidly expanding and

1. Statutes of Canada 7-8 George V, 1917 Chapter XV Section 5 (f).

changing in character, the need for working capital and capital for the acquisition of plant and facilities induced them to withhold a substantial portion of their surplus earnings from their members, questions of their tax liability came to the fore.

In 1929 and 1930, two important cases brought by the Minister of National Revenue to recover income tax from co-operatives under the law as it then stood were decided by the Supreme Court of Canada. These cases were Fraser Valley Milk Products Association vs. MNR. [1.] and Saskatchewan Co-operative Wheat Producers' Association vs. MNR. [2.], the former being in favour of the Government and the latter in favour of the taxpayer.

As a result of the doubts which existed and were underlined by the apparent conflict between these two cases, Parliament undertook to remedy the situation by enacting Section 4P of the Income Tax Act of 1930, which read as follows:-

> "The income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like corporate companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations
>
> a) market the products of the member or shareholders of such co-operative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;
>
> b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.
>
> Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed 20 per centum of the value of produce, supplies or equipment marketed or purchased for the member or shareholders.
>
> This exemption shall extend to companies and associations owned or controlled by such co-operative companies and associations and organized for the purpose of financing their operations".

As may be seen, this enactment again was cast in vague language giving rise to much doubt. Co-operatives and pseudo-co-operatives

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1. 1929 S.C.R. 435

2. 1930 S.C.R. 402

of all types claimed to come within its scope. They claimed that it included companies and associations on a "like" basis -- meaning a co-operative basis whether organized and operated by farmers, etc., or not. Again no attempt was made in the legislation to define "co-operative" or what was meant by the expression "organized and operated on a co-operative basis". Moreover there was no attempt to define "members" or "non-members", which soon led to difficulty with the clause permitting dealings with the latter to an extent not exceeding 20 per cent of the value of produce, supplies or equipment marketed or purchased for the farmer.

What was clear was that Parliament had granted total exemption from income tax liability to an ill-defined class of corporations and associations organized and operated on a co-operative basis, and incidentally in so doing had expressly recognized that co-operatives could earn income and would not lose the preferred tax status granted them by dealing to a limited extent with non-members. This produced radical changes in the methods of organization and operation of co-operatives which persist to the present time not-withstanding the subsequent change in the law following the report of the McDougall Royal Commission. One all important result was that, since membership in the club created by Sec.4p carried with it total exemption from income taxation, the emphasis shifted from seeking tax avoidance by appearing to have no income to appearing to qualify for such membership.

One thing certain is that Parliament, when it enacted Sec. 4p in 1930 and again when it implemented the Report of the McDougall Commission in 1946, never contemplated the existence of the comprehensive type of marketing co-operative which has sprung up and is common today and which may not at all or only in very small measure market the produce of its members; nor did it envisage the type of co-operative retail organization

which has recently come into prominence in the Canadian co-operative scene. Certainly the legislation did not envisage the various types of processing and manufacturing enterprise which are today carried on by companies purportedly organized on a co-operative basis.

Shortly after the enactment of Sec. 4p, the three Prairie Wheat Pools, being farmer-owned and then by far the largest organizations in Canada purporting to be organized and to operate on a co-operative basis, abandoned their system of contract pooling in 1931, although this had been virtually the last vestige of true co-operative activity in which they engaged.

However, during the early 30's, Canada was passing through the severest depression in history. Losses were as common, if not more common, than profits and neither co-operatives nor their competitors were especially concerned with income taxation. During this period no attempt was made to assess any type of co-operative for income tax, although the United Grain Growers Limited which did not strictly adhere to usual co-operative modes of operation, in that it made distributions by way of dividends on share capital to its members, continued to pay tax throughout and indeed down to 1944.

With the coming of war in 1939, the revenue requirements of the Government became intense and income tax rates rose sharply. The profits of co-operatives, along with the profits of ordinary companies, also rose sharply in this period, and in the aggregate, co-operatives were annually earning many millions of dollars of income. The potential tax contribution of co-operatives, if they could be treated as taxable, was proportionately large.

Early in the course of the 1939-45 war period the Department of National Revenue acsessed the three Wheat Pools for a large

undisclosed amount of back income taxes, penalties and interest said to total some $25,000,000. The Pools contested these assessments, and the case (the Alberta Pool being taken as typical) was set down for hearing before the Exchequer Court, when the McDougall Royal Commission on Taxation on Co-operatives was appointed. The hearing of the Pool case was thereupon suspended and following the publication of the Commission's Report in 1945, an out of court settlement of all claims against the three Wheat Pools was effected for some $4,500,000.

B. PRESENT LEGISLATION

The McDougall Royal Commission was appointed to deal expressly with the problem of the Taxation of Co-operatives because of the widespread dissatisfaction with the alleged abuses which had grown up under Sec. 4p, and the complaints of ordinary business of the heavy competitive advantage being enjoyed by their co-operative rivals as a result of escape from taxation thereunder. It is assumed that the McDougall Report will be available to your Commission, but for convenience the recommendations it contained are summarized in Schedule "A" to this submission.

The most important features of these recommendations were:-

1) That Section 4p of the Act be repealed;

2) That co-operatives were separate entities, distinct from their members and as such were capable of earning income, which in fact many of them did;

3) That co-operatives should be required to pay income tax on the same basis as other persons;

4) That patronage dividends, to qualify for income tax

deduction, must be paid to customers in cash or its equivalent or credited in exigible form;

5) That patronage dividends so paid should be taxable in the hands of the recipients;

6) That ordinary corporations should also be permitted to deduct for income tax purposes patronage dividends so paid to their customers;

7) That new co-operatives should be exempted from taxation for the first three years of their operations; and

8) That credit unions should continue to be exempted from taxation completely.

Legislation implementing the recommendations of the McDougall Commission was enacted by Parliament in 1946. This legislation, with the exceptions noted below, is found in Secs. 73 and 75 of the Income Tax Act and has remained substantially unchanged down to the present time. For the convenience of your Commission, Secs. 73 and 75 of the Act as well as Secs. 62(1) and 62(1)(k) are reproduced as Schedule "B" to this submission.

In addition to adopting the McDougall Commission's recommendations, Parliament, in 1946, added the provision contained in Sec. 75(3) limiting the right to deduct patronage dividends for tax purposes broadly speaking to such amount as will not reduce the taxable income to less than 3 per cent of the capital employed in the business. This provision is significant as it recognizes that a profit-making enterprise does, as an entity, have an obligation to meet some part of the cost of running the country. While the section has not been remarkably successful as a tax collecting device it has at least been a step in the right direction.

Section 75 (1) permits the deduction, in the computation of taxable income, of payments made pursuant to allocation in proportion to patronage by a taxpayer within the year or within twelve months thereafter to his customers of the year, or to

his customers of a previous year, the deduction of which from income of a previous taxation year was not permitted. The taxpayer is permitted to vary the rate of patronage paid as among various classes of goods and services and subject to s.s. (2), as between member and non-member customers. Non-members may be (as they frequently in practice are) excluded from such payments.

As noted above, the McDougall Commission recommended that patronage dividends, to qualify for tax deduction, be paid in cash or its equivalent or credited in exigible form; in other words that they be actually disbursed and out of the control of the taxpayer claiming deduction. Section 75 (1) constituted Parliament's substantial adoption of this but when we come to Section 75(4)(f) purporting to define "payment" as used in Section 75(1), we find two provisions which completely negative this concept. Paragraph (i) of s.s. (4)(f) dealing with redemption of past indebtedness and paragraph (ii) of the same subsection dealing with so-called "forced loans", added by Parliament in 1948, reportedly at the instigation of the Co-operative Union of Canada and for the benefit of its dominant members, the Wheat Pools, in practice enable "payment" to be made without disbursement. Thus s.s. (4)(f)(i) defines "payment" as including the issue of "certificates of indebtedness" if the paying corporation (whether co-operative or ordinary corporation) had disbursed in that year or within twelve months thereafter an amount of money equal to the face value of all certificates so issued in the course of redeeming or purchasing other certificates of indebtedness or shares which it had previously issued. The effect of this provision has been to allow co-operatives such as the Wheat Pools, having outstanding certificates of indebtedness to redeem, to satisfy the requirements of "payment" by adopting a "revolving fund" type of operation. Under such operations it is open to the taxpaying co-operative (but not an ordinary company with no

such outstanding certificates) to declare patronage dividends, issue new certificates of indebtedness in respect of all or part of the dividend and redeem certificates to the same value previously issued. There is no limit on the length of time that may elapse between the issue of such certificates and their payment. By this means a co-operative can transform profits into indefinite term capital without being required to pay any tax on these profits.

Subsection (4)(f)(ii) enables a similar result. It has been extensively used by co-operatives and again is not available to ordinary companies. Usually the obligation by the members is created, by means of a by-law or resolution passed by the Directors concurrently with the declaration of a patronage dividend. Then all or part of the dividend is "paid" by setting it off against the "forced loan". Nothing changes hands and the co-operative retains the funds involved for use as capital, and having made a "payment", gains a tax-free deduction. The terms of the "loan" may or may not specify that interest be paid and may or may not fix a date for repayment.

In point of fact only in exceptional cases have co-operatives, when issuing scrip or certificates of indebtedness designed to comply with sub-sections 4(f)(1) and 4(f)(2), provided for a fixed repayment date, or payment of interest. In the result, the co-operative by the use of these provisions can transform profits into interest-free loan capital with a repayment date which can be indefinitely postponed.

These two provisions allowing "notional" payment, and being in practice only available to co-operatives, and not to ordinary companies who have neither outstanding certificates to redeem nor members on whom to impose "forced loans", are a formidable competitive weapon in the hands of the former against the latter, providing as they do the means of obtaining tax-free capital with which to compete.

The value to a co-operative of being able to transform income tax free profits into capital was frankly admitted by the President of the United Grain Growers, in two of the Annual Reports, on behalf of the Board of Directors, to the Annual General Meeting of Shareholders of the Company.

In the year ended July 31st, 1952, it was stated:-

> "Your Directors wish to make it clear that only by such a plan of treating patronage dividends has it been possible to provide the large building program outlined earlier in the report. Had the Company been forced to rely on funds available from the more usual sources hardly one-half of the program could have been completed. The program is not yet finished. The need for greater storage space is still acute at many points as evidenced by the many demands which have been voiced by resolutions at local annual meetings this year".

And in the year ended July 31st, 1955, the Report stated:-

> "This patronage dividend plan has contributed largely to expansion and improvement in the Company's grain handling facilities. Without it much of the construction program of recent years would not have been possible".

V. CLASSIFICATION OF CO-OPERATIVES TAXWISE

Under the present Income Tax Act, co-operatives can be divided into three groups:

a) Exempt co-operatives;

b) Co-operatives not in receipt of income;

c) Co-operatives which do have an income and are taxable.

(a) EXEMPT CO-OPERATIVES

In the case of this first type, the exemption is created by legislation. Every co-operative in its first three years of operation comes into this category, as do credit unions and non-profit organizations (charities, etc.) organized as co-operatives.

(b) CO-OPERATIVES NOT IN RECEIPT OF INCOME

Co-operatives coming into this second category derive their exemption because they do not come under the statute. A series of court decisions have dealt with the nature of income and their effect may be stated in the broadest possible way as laying down that co-operatives which act merely as agents for their member-principals and which undertake to return to each member, as of right, any profit earned by the agent while acting for the principal, are not deemed to earn income. Operations of this nature are distinguished by the cases from those where the co-operative is under no obligation to account to its members for the profits or surplus arising in its hands and it is in the discretion of the co-operative management to decide whether the members will share in such profits and if so, to what extent.

(i) Marketing Co-operatives

Most of the cases where there has been doubt as to whether a co-operative did, or did not, have income have arisen where the co-operative was engaged in marketing the produce of its members. Very often the decision has turned on the terms of the contract the member entered into with the co-operative when he entrusted his goods to the co-operative's charge. Where it has been explicity agreed that the co-operative would return to the members the entire

proceeds of sale, after deduction of the expenses of sale, the courts have held that payments made in pursuance of such a contract have not truly been distributions of profit and that, in the hands of the co-operative, such monies were not profit.

In the view of the Foundation such decisions may be quite justifiable in the case of a co-operative which has no significant assets and does not perform any work on the produce to make it more saleable. However, in situations where the co-operative, as well as merely disposing of the products, processes or otherwise applies labour or capital in connection with them, the case is altered and there is certainly an element of profit in respect of the labour or capital applied by the co-operative in carrying out processing, warehousing, etc. In such cases the capital used by the co-operative comes from members, directly or indirectly, and payments the members receive from the co-operative represent to that extent a return on such capital. There may be difficulty in determining what part of the distribution is actually income and what part is simply a residue of price being funnelled through to the member, but the principle remains the same.

(ii) Consumer Co-operatives

Few, if any, consumer co-operatives have been able to achieve a "non-income" status. The reason is obvious. The co-operative does not consult its customers individually as to their anticipated purchases and then go forth and buy these purchases in bulk, undertaking to return to the customer whatever

saving or profit it has been able to achieve because of the volume of its purchases. It is the nature of any retail business, whether co-operative or otherwise, that it buys stocks, speculatively, in the hope that its stock will meet its customers' desires and needs.

The management of the co-operative retail store, like the management of any other business reckons up its profits at the end of the year and then determines how much of the profit it requires to retain in the business and how much it can disburse. While in disbursing the profits in patronage dividends, some distinction is usually made in an arbitrary fashion between the dividends paid on various types of commodities purchased, the contractual test is obviously not satisfied.

The point was discussed in Minister of National Revenue vs. The Davidson Co-operative Association Limited.[1]

The Association contended it had no income as it had distributed all of its surplus to its patrons and that any residue held in the surplus fund was the property of the patrons. In the Exchequer Court Fournier J. stated:

> "the evidence before the court is to the effect that the respondent (co-operative) bought goods on its own account from the ordinary sources of supply, paid for these goods, stocked them in a store and put them up for sale, as any other storekeeper in the usual course of business. These goods were not purchased to supply orders previously received. They were sold to members and customers at a marked up price in line with prices available in the other stores of the region. These prices comprised the cost of purchase, the overhead expenses and a profit, plus the education tax. I find that everything the respondent did in the carrying on of its business was similar to what is generally done by businessmen or a business firm".

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1. 1956 Ex. C.R. p. 138

The court found that the co-operative was a legal person doing business in its own right on a profit basis and did have an income in the years for which it was assessed.

(c) "INCOME EARNING" PATRONAGE PAYING CO-OPERATIVES

It should perhaps be emphasized that most co-operatives do not attempt to come under the non-income classification. By far the largest percentage of co-operatives are of the income earning and patronage dividend paying variety. While it appears to the Foundation that there are substantial grounds for reviewing the position of the so-called non-income co-operatives, it is in favour of the income-earning patronage dividend paying co-operatives that the most substantial tax inequities exist.

VI. CO-OPERATORS' ARGUMENTS FOR SPECIAL TREATMENT

At one time all co-operators argued for complete exemption from taxation of all their income, whether distributed in the form of patronage dividends or not. The grounds for these arguments and the reasons for which the Foundation considers these grounds unsound can be summarized as follows:-

A. That in reality, whether recognized by law or not, co-operatives were not income earning entities.

(i) The Agency Theory

This, as has been seen, is the basis for the classification of certain types of co-operatives as non-income co-operatives. Co-operators argue that the theory also provides justification for treating patronage dividends as deductible from profits.

The theory is that a co-operative acts as the agent of each of its individual members in performing the buying, selling or processing which it carries on

for them, and that it is accountable to each such member for whatever profit it receives in carrying out such work on his behalf.

No such situation can be found in the overwhelming majority of co-operatives operating in Canada today. The profits a co-operative earns cannot be divided up and ascribed to the business done with any one member. Rather the co-operative's profit at the end of the year represents the success or the failure of the total of its activities, just as in ordinary business certain divisions may report profit while other divisions report losses. When a co-operative pays a patronage dividend it is not a case of the co-operative agent returning to the member-principal the saving the former made on the latter's behalf in dealing with his particular transactions. There is in fact no difference between these payments and the payment of ordinary dividends by ordinary companies to their shareholders.

(ii) The Partnership Theory

This theory is no longer pursued very seriously by co-operators. It is quite obvious that most co-operatives are not partnerships in fact or in law. Almost without exception they are incorporated by special act or under one or other of the provincial acts providing for co-operative organization. They have legal personalities quite distinct from those of their members, can sue and be sued, hold property in their own names and generally conduct themselves in the same manner as other artificial persons recognized by law.

One of the characteristics of a partnership is the

legal responsibility of each of the partners for the acts and debts of the partnership. It is doubtful if any co-operative member would willingly assume this obligation.

It seems clear that although co-operative members may have similar aims and aspirations (as indeed do the shareholders of an ordinary corporation) they are not in any sense of the word, partners.

The Report of the McDougall Royal Commission stated in this connection:

> "They are, in our opinion, bodies corporate and therefore 'persons' within the meaning of that word as used in the Income War Tax Act. We regard the individual members and the corporate bodies with which they are associated as 'persons' separate and distinct from each other. Each is a potential taxpayer with respect to that income which may properly be considered to be his." [1.]

(iii) The Price Adjustment Theory

This theory is based on the proposition that a patronage dividend paid by a co-operative simply represents the difference between the initial charge, in the case of a service or consumer co-operative, or the initial price, in the case of a marketing co-operative and the lower charge or higher price the co-operative could have made or paid to its members if it had wished to pass on its "savings" by way of initial price adjustment.

The theory ignores the fact that there is an owner relationship as well as a patron relationship, between co-operatives and their members. It also ignores the fact that whatever funds are paid to patrons at the end of the year are earned not from the co-operative's transactions with its members but from all

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1. Report of Royal Commission on Co-operatives 1945, p. 32.

its transactions including those with third parties. The patronage dividend is paid not to the person or firm from whom or which the profit or 'saving' is derived, but to the member.

Two other points are significant here. First, the profit arises because of the existence of the co-operative as a separate entity. Just as in the case of an ordinary company the co-operative is able to make a profit from its operations simply because all its members have joined together, put up capital and appointed management to control those operations. Second, in many cases a distribution of profits by way of patronage dividends will also represent a distribution of profits in proportion to capital. This situation arises because of the practice of co-operatives withholding a proportion, often a large proportion, of the patronage dividend declared. The manner in which this procedure is carried out and the reason for its being done have already been discussed. In these circumstances it seems clear that the individual member is actually participating in the risks of an ordinary commercial venture. If the co-operative makes money from the total of its operations he is rewarded. If it does not there will be no patronage dividend. Such a situation is clearly different from one where a business, co-operative or otherwise, reduces its prices at the time of sale (in the case of a consumer or service co-operative) or increases them in the case of a marketing co-operative, at the time of purchase.

(iv) The Mutuality Theory

Various aspects of the three foregoing theories have been used in what is known as the "mutuality doctrine".

The Report of the McDougall Royal Commission summed up this argument and its view of it, as follows:

> "In the early stages of the tax controversy in England, an attempt was made to apply the doctrine of mutuality to this situation. This argument, orginally developed in connection with mutual insurance, was advanced in support of the contention that neither the society nor the members make any profits from their joint venture. But, in the view which we take of the Canadian tax situation, this argument is of little assistance. Co-operative associations are organized for buying or selling or both. Even in the case of a co-operative consumers' store, the amount saved by the consumer is influenced not only by what the consumer originally pays the association but also by the amount the association has to pay its suppliers and its employees, by the amounts received from outside investment, and by the amount of its business with non-members. It is our unhesitating opinion that the association and its members, as a result of the trading venture which they undertake, do make a profit." 1.

(v) The Theory that co-operatives should be exempted from tax because they perform socially desirable functions

This theory is no longer seriously canvassed. The McDougall Report dismissed this argument in peremptory fashion.

While recognizing that co-operatives often perform useful services, it said:

> "Alert and efficient non - co-operative trading enterprises perform similar services not only in areas where the associations (co-operatives) are now engaged, but in many other commercial and industrial fields." 2.

The Report of the Commission went on, later, to state:

> "The granting of fiscal advantages is not usually a good method of giving special encouragement or assistance in the field of economic venture. Exemptions granted to one segment of the commercial community can scarcely benefit the public as a whole. Welcome though they may be to those who receive them, the burden from which some are

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1. Report of the Royal Commission on Co-operatives 1945, p. 33

2. Ibid p. 31

relieved falls with proportionately increased weight on the rest of the economy. The cost of granting the exemption is usually not known. Accordingly, it is difficult to know whether or not the results are worth the cost. The advantages of any general exemption accrue to those who need it and to those who do not. In this particular case the advantages are likely to accrue in larger proportion to those associations whose income is large and whose need is less, while those associations who have no net income are receiving no advantage from the exemption." 1.

(vi) The Theory that because co-operatives do not intend to make profits they should not be taxed

The McDougall Report dismissed this argument as follows:

"The mere statement of this non-profit purpose in their charters or by-laws is not conclusive to a finding that co-operative associations do not in fact, and in practice, earn an income which might, in all fairness, be assessed to income tax. The circumstances that they may order their affairs in such a way as to avoid friction between buyer and seller, or so that the investments of the members are roughly proportional to their patronage, is not relevant in determining whether they earn a taxable income."

VII. PATRONAGE DIVIDENDS

Most co-operatives no longer argue for complete exemption from taxation. They do, however, argue that they should be allowed to deduct patronage dividends from taxable income. The true nature of patronage dividends was analyzed by The Royal Commission on Co-operatives as follows:

"Functionally, then, the so-called patronage dividends may partake of the nature of a return of profits to the members, or a return of excess charges, or a return of investments or an expense of this association (co-operative). These practices, be it noted, are not to be regarded as devices adopted by the co-operatives to avoid payment of taxes. Rather they are characteristic of the ordinary co-operative way of doing business." 2.

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1. Report of The Royal Commission on Co-operatives 1945, p. 31

2. Ibid p. 34

It will be noted that even in 1945, before the "payment" of patronage dividends by co-operatives was given much impetus by the 1946 and 1948 amendments, the Commission recognized that the patronage dividend could constitute a "return of profits". It is the Foundation's submission that this is true of by far the greater portion of dividends now paid by co-operatives in Canada and further, that it is possible for co-operatives to eliminate any other element patronage dividends may contain without experiencing any substantial hindrance in their accustomed mode of operation.

The Commission's statement that the payment of patronage dividends was "not to be regarded as devices adopted by the co-operatives to avoid payment of taxes" was written with true patronage dividends in mind and before co-operatives made such prodigal use of the "notional" payment of patronage dividends to enable them to build up working capital from tax-free profits. Had the Commission been confronted with this phenomenon on the scale which it is presently practiced, it would have undoubtedly concluded that patronage dividends were being largely used as a "device" to reduce tax liability.

As has been seen, the McDougall Commission's Report recognized co-operative income should be taxed. In this connection the Commission's Report contained the following observations:-

> "All of it (a co-operative's income) should be assessed as income either of the members, or of the Association, or of both, unless there are very clear special reasons for exempting any part of it." 1.

The Foundation's views on the true nature of patronage dividends can be summarized as follows:

1. When an ordinary corporation reduces the prices of its goods or services or when it pays a rebate or discount or makes available some bonus to its customers, it is

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1. Report of the Royal Commission on Co-operatives 1945, p. 32.

carrying out an action quite different in its nature from the payment of patronage dividends by a co-operative. The essential distinction is that, in the case of the corporation and its customers, the economic interest of the two parties to the transaction is diametrically opposed. The buyer wishes to pay as little as possible while the seller wishes to realize as much profit as he can. The vendor, therefore, reduces prices or pays a rebate either to meet competition or to attempt to secure the business of the customer in the future. There is thus, in the normal case no element of reward in the payment which the ordinary corporation makes. In the case of the co-operative and its members, however, the member is not only a customer he is an investor. A patronage dividend is thus paid to someone whose economic interest is similar to that of the payor. In these circumstances the payment much more nearly resembles a distribution of profit than it does a rebate.

2. The similarity of a patronage dividend to a dividend on invested capital is emphasized when regard is had to the source of the patronage dividend. It is dependent on the success or failure of the co-operative's business operation as a whole. In the case of most co-operatives today the types of business carried on vary widely. The member's dividend is thus attributable not only to the business that member did with the co-operative, but to the sum total of all the co-operative's ventures. In the case of certain co-operatives the element of income derived from pure investment in other enterprises may be large. The larger it is the more ridiculous does it become to categorize the patronage dividend as a "saving". It is significant also that the co-operative's income is derived not only from its dealings with its members but also from its dealings with third parties.

3. It is open to co-operative management itself to determine what part (if any) of a patronage dividend is price rebate and what part is truly return on investment. Co-operative management can do this by the expedient of adjusting its selling price of its goods or services to its members so that whatever "saving" is considered desirable to pass on to its members can be distributed at the point of sale. Where this is done, there is no doubt whatsoever that the surplus resulting at the end of the year is truly profit.

4. The true nature of patronage dividends was well summed up by Professor McIvor when he stated:- [1].

> "Nor does the view that co-operatives' net surplus is not profit find much support outside the movement itself. As a recent careful study has stated this matter, it is rather that 'co-operatives are organized to increase the gain of their members, and to the extent that they do, they have profits. A rebate is only such if paid to a person whose interest is adverse to that of the business which pays it.'[14] It is further noted that 'the source of the patron-members' real gain is the transactions of their associations with others whose interests are adverse to theirs. Their interests, like those of the stockholders of an ordinary corporation, are furthered by the operations of a separate and distinct business entity.'[15] "

"14. See Robert T. Patterson, 'The Tax Exemption of Co-operatives', (New York: University Publishers), 1961, p. 71."

"15. Ibid, p. 82."

VIII. BRITISH TREATMENT OF THE TAXATION OF CO-OPERATIVES

There are few countries where tax discrimination as between co-operatives and ordinary businesses is as severe as it is in Canada. In Britain, as has been seen, co-operatives were originally incorporated under the Friendly Societies Act of 1846. They were thus regarded as being in the nature of

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1. Recent Growth in Canadian Co-operatives, R. Craig McIvor, Canadian Tax Foundation, 1962.

eleemosynary institutions. This tendency to regard co-operatives as almost "hors de commerce", which in no way fits present day conditions, has persisted through the years and throughout much of the world. The idea has no doubt been fostered because in the early days co-operators were often persons in economic straits who turned to co-operation among themselves as a means of improving their circumstances. When co-operators represent not a specially depressed class but a general cross section of society, this notion ceases to have meaning.

The 1945 Royal Commission was strongly influenced by the fact that in Britain co-operatives were allowed to treat patronage dividends, paid to their members in cash in the year in which they were distributed, as expenses of doing business. The Commission apparently failed to take into account the fact that in Britain the income tax paid by a company on that part of its earnings which it distributes is truly a tax paid on behalf of the shareholders rather than by the company. In any event the British taxing authorities have only allowed patronage dividends as deductions when they were paid in cash.

From the point of view of the ultimate recipients of distributed income, shareholders paid tax on their dividends if theywere in a taxable bracket, while patronage dividends were tax free in the hands of the patrons. One of the factors influencing this situation was the fact that in Britain, by far the greatest volume of business was performed by consumer co-operatives. As a result the patronage dividends were usually of small amounts individually and difficult to trace in the hands of recipients. In addition, at the time the last full-scale investigation of the controversy was made in 1933, relatively few patronage dividend recipients were likely to be in income tax paying brackets. The point was therefore to a considerable extent, academic.

Since that time, the situation in Britain has been confused

because of the imposition of Profits Tax, the incidence of which is not changeable with the proportion of profits distributed. Because of this fact, the discrimination in favour of co-operatives has been increased but it seems that this has come about more by accident than by design. Even so, the tax discrimination between the two forms of enterprise is less severe than it is in Canada.

IX. EXAMPLES OF THE EXTENT OF THE DISCRIMINATION IN CANADA TODAY

There follow two examples of the comparative tax positions of a co-operative and its members and a corporation and its shareholders. In the first case, the comparison is between a large co-operative in a service industry and an ordinary company of comparable size. In the second case, a small co-operative and a small company, both in the retail industry, are compared. In both cases the extent of the discrimination is formidable.

A. Large Co-operative and Ordinary Corporation in Service Industry

(For the sake of authenticity, the figures used in the example of the co-operative situation are those actually relating to the Alberta Wheat Pool for the year 1959-60 -- a year for which full information is available. The rates used are those which were applicable in Alberta at that period. While not identical with current rates they are sufficiently similar to make the comparison a valid one.)

Co-operative

(a) Co-operative Organization

Alberta Wheat Pool's Net Income	$2,426,508.00	
Patronage Dividend Declared (Wheat Pool Annual Report)	2,192,499.00	
Taxable Income	$ 234,009.00	
Actual Tax Paid (Annual Report, Alberta Wheat Pool 1960-61)		$ 109,754.00

(b) Patrons

The average rate of individual tax paid by patrons is low. Even if it is assumed that the average rate is as high as 10%, the contribution by patrons would not be great.

10% of patronage dividend of $2,192,499.00	$ 219,250.00
Total Tax paid by Co-operative and members	$ 329,004.00

Ordinary Corporation

Corporation's net income $2,426,508.00		
Income Tax of 21% on first $25,000	$ 5,250.00	
Income Tax of 50% on $2,401,508.00	1,200,754.00	$1,206,004.00

Shareholders

Assume same amount of dividends distributed by corporation as by Alberta Wheat Pool - $2,192,499.00.

Assume that shareholders on average pay 30% income tax rate (This figure is probably low, having regard to the fact that shares are often held as part of savings programmes, etc., in addition to remuneration from employment), then effective rate after allowance for 20% tax credit is 10%. Tax paid by shareholders is therefore ..... $ 219,250.00

Total contribution of corporation and shareholders is therefore $1,425,254.00

In this example the corporation, as an entity, has paid approximately eleven times the tax paid by the co-operative while corporation and shareholders, together, have paid over four times the tax paid by the co-operative and its members. Even if it were assumed that the corporation would only pay out 50% of its income the contribution of corporation and shareholders would total $1,326,604.00 -- still more than four times the combined co-operative and co-operative members' contribution.

B. Small Co-operative and Small Corporation in Retail Business in Province of Ontario

(In this comparison, it will be assumed that both types of organizations wished to plough back half of their profits into the business.)

Co-operative

Co-operative income	$10,000.00	
Less patronage to include 5/9 satisfied in cash; the other 4/9 being satisfied by scrip or loan, the actual cash being retained in the business	9,000.00	
Taxable income	$ 1,000.00	
Tax payable (23% on $1,000)		$ 230.00

Members

No tax whatsoever would be payable by members as this is a consumer co-operative		
Total tax contribution of co-operative and members therefore is -		$ 230.00

Corporation

Corporation income	$10,000.00	
Tax thereon		$2,300.00

Shareholders

Assume $5,000 distributed by way of dividend	
Assume shareholders, on average pay 30% income tax rate, then effective rate after allowance for 20% tax credit is 10%. Tax paid by shareholders is therefore	500.00
The total tax contribution of corporation and shareholders is therefore	$2,800.00

It will be noted the contribution of corporation and shareholders is twelve times greater than that of co-operative and patrons.

X. GROWTH OF CO-OPERATIVES IN CANADA

A. GENERAL

The modern co-operative tends increasingly to become a powerful organization, with large amounts of capital engaged in a multiplicity of activities many of which are far distant from the farm level. Co-operatives employ land, labour and capital in the operation of their businesses. Their activities include retailing, wholesaling, lumbering and building supply distributing, grain handling, dairying, food processing and manufacturing, fisheries, saw milling, operation of packing plants and abbatoirs, oil producing and refining, operation of service stations, flour milling, seed processing, manufacturing and distribution of feed products, chemical manufacturing, banking and insurance.

While the growth rates of co-operatives have been most spectacular in recent years, there seems little doubt but that their favoured tax treatment and the high rates of taxation imposed on ordinary businesses during World War II and throughout the post-war years have been the significant factors in the achievement of this remarkable development.

Out of this period has emerged a network of local, regional and super-regional co-operatives operating as marketing, processing, manufacturing, wholesaling, retailing and service establishments. This expansion is not confined to the field of agricultural and other natural product co-operation but is also being promoted by urban consumer co-operatives and retailer-owned co-operative wholesales.

Some large co-operatives are federated associations, whose members are not individuals but other co-operatives. They operate over a wide area, own various subsidiaries and have reached a high degree of vertical and horizontal integration.

Many of these co-operatives carry on business in a manner quite indistinguishable, so far as operation is concerned, from the methods of their fully-taxed competitors. Their memberships include those from all levels of our society -- the prosperous as well as those from the average and low income groups. Far from being an experimental type of business they are well able with their large reserves, expert management and ambitious plans for expansion, to compete with all other types of business. There seems little doubt that they would be able to continue to compete effectively even if they had to bear a proportionate share of the tax burden.

As the activities of co-operatives proliferate and the percentage of the nation's business they handle increases, there must inevitably be a similar percentage decrease in the business handled by their taxable competitors. This means a corresponding decline in national revenue and a slow but sure erosion of the tax base as more and more businesses either abandon the competitive scene or pass into the hands of government subsidized co-operatives.

The advantages which co-operatives derive from their favoured tax position are from time to time compounded by the special treatment which co-operatives receive from governments in other areas. In dispensing such special privileges, governments concerned are presumably moved to take the action they do by their mistaken belief that co-operatives represent a particularly meritorious means of doing business. An example of this type of treatment can be seen in a situation which arose in the Province of Saskatchewan in 1953. It was reported in the press, at that time, that the Saskatchewan Government

had entered into contracts with Consumers' Co-operative Refineries Ltd. for the sale to it of Crown oil rights in certain acreage in the proven Weyburn and Steelman fields. Contrary to prior government practice in the disposal of similar acreage to other oil companies, the Government did not seek competitive bids. The royalties agreed upon amounted to 65 per cent in the case of the Weyburn field and 71 per cent in the case of the Steelman field. Immediately prior to the disposal of this particular acreage the Government had received competitive bids in respect of similar acreage for royalties in excess of 83 per cent and, in some cases, for cash bonuses in addition.

The Saskatchewan Government's action in this matter evoked criticism from the Saskatchewan section of the Canadian Petroleum Association. Replying to the criticism, the then Premier of the Province, Mr. Douglas, was reported to have stated that the natural resources of the province belonged to the people who should have the opportunity of benefitting from their development. Similar statements were made by Mr. Unwin, the then President of Federated Co-operatives Limited. As editorial writers and others commented at the time, both Mr. Douglas and Mr. Unwin seemed to have been under the illusion that it was the Government's obligation to work on behalf of those citizens of Saskatchewan who happened to be co-operative members rather than on behalf of all the citizens of that Province.

Before examining further aspects of co-operative sales growth some consideration of accompanying financial trends may be of significance. Table I discloses that between 1957 and 1961 co-operative total assets have increased by 28 per cent from $481.9 million to $617.8 million. During the same period Canadian co-operative marketing sales rose by 25 per cent to a level exceeding $1 billion. In the same interval,

merchandising sales grew much more rapidly. Here a 38 per cent increase brought sales of $388 million. These rates of real growth represent a substantial achievement, with combined sales (marketing and merchandising) now in excess of 1.4 billion dollars. This amounts to a doubling of the 1947 figure.

B. CO-OPERATIVE GROWTH IN BROAD DIVISIONS

The amount of business reported by marketing co-operatives for the crop year ending July 31st, 1961, was the largest on record. Total sales of farm products reached the $1 billion mark. They amounted to $1,018,118,000 compared with $972,333,000 in 1960. This is an increase of $45.8 million, (4.7 per cent) over 1960 (Table II).

Sales of grains and seeds were $49.5 million over 1960 at $427.2 million. Sales of dairy products were $9.0 million over 1960 at $228.5 million (Table III).

Types of farm products marketed by co-operatives during the year 1961 were, in their order of importance, grain and seeds, livestock and livestock products, dairy products, eggs and poultry, fruits and vegetables, honey, lumber and wood, tobacco, wool, fur and miscellaneous groupings.

There are about two and one-half times as many co-operatives now as in 1932 and the total amount of business has increased tenfold. Of sales of $1.4 billion in 1961, 71 per cent was represented by the marketing of farm products. Marketing business during the 1957-61 period was more than six times as great as during the 1937-41 period (Table IV).

The following observations may be made in respect of certain trends in the marketing of farm products and the extent to which co-operatives have claimed an increasing share of sales in the sectors where they operate. The changing relative

importance of the major farm products marketed is readily apparent from Table V. (This table deals with total farm cash income only and does not purport to break down sales between co-operatives and others). In the post-war years, grains (in which wheat predominates), livestock, dairy products and eggs and poultry ranked in this particular order. By 1957, however, livestock sales had assumed first importance, with grains immediately following but the relative gain of dairy products was such that their sales now approach those of wheat.

Table VI sets forth the sales volume of marketing co-operatives, by commodity classification for selected post-war years and Table VII indicates the proportion of co-operative marketing sales to Canadian cash income from the sale of farm products. Between 1947 and 1957, the overall ratio of co-operative marketing sales to Canadian farm cash income rose from 29 per cent to 32 per cent, and between 1957 and 1961 from 32 per cent to 35 per cent.

As indicated by Table VIII between 1947 and 1961, the co-operatives' share in the marketing of dairy products rose from 25 per cent to 43 per cent (or by two-thirds), in grains from 44 per cent to 58 per cent (or by one-third) and in livestock from 19 per cent to 27 per cent (or by one-half). The co-operatives' share of the livestock market in 1959 and 1960 was 31 per cent (increased by three-fifths from 1947). The decline in 1961 co-operative sales of livestock is attributable to one large co-operative in Ontario. Eggs and poultry show little change, although after a marked decline in post-war years, the co-operatives' share since 1957 has risen from 11 per cent to 16 per cent (or by one-half).

Table IX examines the sales volume of marketing co-operatives by Provinces for selected post-war years and Table X sets out farm cash income by Provinces for the corresponding years.

From this information we have constructed Table XI from which it is interesting to note that while the relative marketing strength of the co-operatives remains in the West, the greatest gains of co-operatives are seen to be in the provinces of Quebec and Manitoba.

It can be seen from these statistics that co-operatives have succeeded in expanding appreciably their share of the total market in the sales of farm products. The acceleration in the rate at which co-operatives are doing this is one of the most significant characteristics of the foregoing figures.

C. MERCHANDISING CO-OPERATIVES

Although marketing co-operatives do a larger volume of business, merchandising co-operatives are growing faster. It has been indicated that marketing business during the 1957-61 period was six times as great as during the 1937-41 period. But the business of merchandising co-operatives has increased seventeen-fold for the same period (Table IV).

Sales of supplies and merchandise for the crop year ending July 31st, 1961, were $392.1 million compared with $365.7 million in 1960, an increase of $26.3 million (7.2 per cent) (Table XII).

All types of supplies and merchandise contributed to this increase. Large increases were recorded for petroleum products, feed and fertilizer and food products. Sales of petroleum products amounted to $70.7 million, an increase of $6.7 million over 1960; sales of feed and fertilizers, still the most important type of supplies sold, were $122.4 million, $6 million over 1960; and sales of food products were $108 million, $5.6 million over 1960 (Table XII).

Ontario and the prairie provinces contributed most of the increases. Sales in Ontario increased from $67.0 million in

1960 to $74.5 million in 1961, or by $7.5 million; in Saskatchewan sales increased from $77.1 million to $82.9 million or by $5.8 million; sales in Alberta increased from $30.5 million to $35.1 million or by $4.6 million; and, in Manitoba, sales increased from $26.3 million to $29.2 million or by $2.9 million (Tables XII and XIII).

Despite the fact that merchandising sales have grown at a much greater rate than co-operative marketing sales during the post-war years their relative importance within the Canadian economy is, at the present, of much less significance than in the case of marketing. This is apparent from comparing co-operative merchandising sales with total retail sales in Canada by major product groupings. The relevant data is provided by Tables XIV and XV. It should be pointed out, however, that merchandising (and wholesaling) co-operatives are comparatively new entrants in the field and from a very small starting base they are successfully competing in an industry with annual sales of more than $17 billion (Table XVI). As has been stated earlier, their record of growth in these circumstances is nothing short of phenomenal. They are well financed, employ alert management and all of the sophisticated techniques of big business and they enjoy fantastic tax concessions over their fully-taxed competitors. All this coupled with their modern trends to vertical and horizontal integration gives strong assurance that co-operatives in the merchandising fields are and will continue to be a potent form of competition.

From Table XIV, it will be observed that the most impressive gain in sales during post-war years occurred in the co-operative merchandising sales of food products and petroleum products. Total Canadian retail sales of food products (Table XV) more than tripled. Co-operative food sales kept pace and achieved a relative gain of modest proportions. In petroleum products and auto accessories the situation was somewhat similar. Total Canadian sales quadrupled. The co-operative increase was

fractionally larger.

In reference to the sale of petroleum products Professor McIvor has stated:-

> "This remarkable achievement in the sale of petroleum products is based upon the operation, by Federated Co-operatives Limited, of the Co-op Refinery in Regina, a wholly owned subsidiary. Its production of all petroleum products in 1960 totaled some 144 million gallons, up almost 5% from 1959. Federated's own wells provided 15% of the necessary crude oil. Large-scale integration has been effectively achieved in this area of production and merchandising, the operation extending from oil wells to refinery to service stations. Thus, in Saskatchewan in 1960, co-op sales of petroleum products exceeded 20% of the total market." [1].

In the last five years Co-operative merchandising sales have achieved much better than average results and have outdistanced total Canadian increases in all commodity classifications. Reference to Tables XIV and XV shows that co-operative sales of food products during the period 1957-1961 increased by 42 per cent - double the rate of increase of total Canadian sales of food products which stood at 21 per cent. Co-operative sales of clothing and furnishings increased 32 per cent while increases in total Canadian sales were 6 per cent; Co-operative sales of petroleum products and auto accessories increased by 48 per cent compared to modest upward trends in the national average for this category; in wood and building materials co-operative sales increased by 7 per cent in contrast to a decline in total Canadian sales. In the hardware trade since 1958, co-operative sales have increased 43 per cent against an increase of only 7 per cent in the total national average.

From the foregoing, it can be concluded that the present rate of growth in co-operative merchandising sales substantially exceeds that in the whole economy. While the share of

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[1]. "Recent Growth in Canadian Co-operatives" by Professor R. Craig McIvor, Canadian Tax Foundation, 1962, p. 24.

co-operative merchandising business in the economy is presently small, if the existing trend continues, co-operative expansion into new spheres of merchandising will result in their obtaining an ever larger share of total merchandising business.

D. CO-OPERATIVE WHOLESALES

There is another area of co-operative activity in the merchandising field which should now be considered. This is the progress of co-operative wholesales which have experienced a tremendous rise in trade in relation to the total Canadian wholesale trade. According to the 1962 Canada Year Book, wholesale co-operatives are federations of local co-operatives which act as central marketing agencies for farm products and as wholesalers of farm suppliers, machinery and consumer goods. The wholesale associations had assets amounting to $86,473,000 in 1960 of which members' equity represented 40 per cent.

At the top of the Canadian co-operative structure is Interprovincial Co-operatives Limited, the national wholesale organization serving the regional wholesales. Organized in 1940 it is the function of Interprovincial to consolidate the buying of regional members; to acquire and operate productive manufacturing facilities; to distribute goods produced in co-operative processing plants; to control and supervise the use of the "co-op" label throughout Canada. Interprovincial sales in 1960 amounted to $27 million, an increase of 50 per cent over sales of $18 million in 1957.

For some years there have been nine regional wholesales in operation but as of October 31, 1961, the number was reduced to eight because of the amalgamation of the Alberta Co-operative Wholesale Association with Federated Co-operatives Limited. Federated serves close to 600 local co-operatives, has a membership exceeding 230,000 persons and its annual sales have tripled since 1954 to $94.8 million in 1962. There is some

prospect that the British Columbia Wholesale Society will be next to merge with Federated and it would appear that the objective is to establish a single well-financed co-operative wholesale to serve the four western provinces. The remaining co-operative wholesales include Producers' Co-operative Association (Charlottetown); Eastern Co-operative Services Limited (Antigonish); Maritime Co-operative Services Limited (Moncton); Co-operative Federée de Québec (Montreal); La Federation des Magasins Co-op (Québec); United Co-operatives of Ontario (Toronto).

Tables XVII and XVIII provide summary information relating to the growth of Canadian co-operative wholesales during the ten-year period 1947-57, and annually thereafter. While the eastern wholesale co-operatives have thus far placed little emphasis on processing and manufacturing operations, the western wholesales have continuously expanded such activities, which now include petroleum refining, oil drilling, lumber milling and coal mining as important sectors. To illustrate: Federated Co-operatives' Regina refinery produced almost 150 million gallons of petroleum products in the year ended October 31, 1961. A further substantial increase in refining capacity is to be undertaken and vigorous oil exploration and drilling activities are being continued. Its lumber mills in British Columbia produced some 46 million board feet of lumber and total sales of finished lumber by Federated's own wholesale outlets exceeded $10 million. A new $3 million chemical plant has been opened this year for the purpose of producing herbicides and insecticides. An increase in the feed manufacturing capacity of Federated's three plants is also an early probability. These activities are typical of the dynamic growth in various sectors of co-operative wholesaling.

Between 1957 and 1961 the total sales of the wholesale co-operatives have risen from $220 million to $319 million, an

increase of 45 per cent. This increase has been achieved under conditions of relatively stable price levels.

The growth rate of co-operative wholesale trade can be measured by comparing the co-operative rise in sales to total Canadian averages by commodity groupings. During the period 1953 to 1960 co-operative sales of flour, feed and fertilizer doubled as against an increase of only 13 per cent total Canadian trade; co-operative sales of gasoline, oil and auto supplies likewise doubled as against an over-all Canadian increase of 62 per cent; comparable rates for groceries sales were 207 per cent and 60 per cent; for coal, wood and building materials 100 per cent and 40 per cent; for clothing, dry goods and home furnishings 138 per cent and 26 per cent. [1.]

In the same period aggregate sales rose from approximately 2 per cent of total Canadian wholesale trade (in the relevant commodity classifications) to approximately 3 per cent. [2.] In economic terms, this impressive achievement from a small base reflects the rapid expansion of the merchandising activities of local co-operatives many of which are now assuming an increasingly urban aspect.

On the subject of co-operative growth and the changing pattern of the competitive status of co-operatives the Canadian Tax Foundation publication stated:

> "The statistically proved rate of growth in Canadian Co-operative marketing, merchandising and wholesale sales since the end of World War II has, it will be generally conceded, been striking. Moreover, these sales gains are impressive both when measured in absolute terms and when measured relative to the rate of growth achieved by competitors in the 'private' sector of the economy. It appears to be a fair generalization that Co-operative sales have grown a good bit more rapidly (and in a number of areas much more rapidly) than those of their competitors. To put the matter differently, the co-operatives, in those areas

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1. Reference to "Recent Growth in Canadian Co-operatives", Canadian Tax Foundation, 1962, p. 25.

2. Ibid.

> of activity where they compete with 'private' enterprise, have substantially increased their share of total trade. We have shown that in the marketing of agricultural products, the Co-operatives' share of total trade (although not growing as rapidly) is very much greater than its share of total merchandising trade. What is most significant about Co-operative merchandising (and wholesaling) is not its present small share of total Canadian merchandising (and wholesaling) (a fact to be explained by its relatively recent development and relatively limited range of commodity groupings traded), but its very rapid growth throughout its still limited range of operations and the severe competitive pressure which it has been able to bring to bear on particular segments of the 'private' trade." [1.]

E. GROWTH IN PARTICULAR INDUSTRIES SHOWING COMPETITIVE ADVANTAGE DERIVED FROM INCOME TAX CONCESSIONS

The ability of co-operative business to escape the payment of all but a meagre share of income tax on its earnings, combined with the privilege of retaining a large portion of such earnings for an indefinite period of time has given co-operative business the opportunity for financial and operational growth far in excess of the rate of growth which would have been possible if co-operative earnings were subject to the same taxation as their ordinary business competitors. The reason for this is apparent when it is realized that the profits, which otherwise would be paid out in the form of taxes, are converted instead into working capital, plant and equipment, as the foundation for more profits. Unless remedial changes are made in the relevant taxation laws without further delay these co-operative advantages will continue to pyramid to the point where the structure of our entire economy is disrupted, and incidentally the ordinary business goose, now struggling to continue the laying of golden tax eggs will be killed entirely.

In the early stages of the income tax, tax rates were low and the tax benefits granted co-operatives really represented more of a gesture of moral encouragement on the part of Government

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1. "Recent Growth in Canadian Co-operatives", Canadian Tax Foundation, 1962, p. 33.

rather than the creation of an economic advantage. Today, much of this has been changed. Taxes are not low and tax-favoured treatment has become an extremely important economic advantage. The present submission will demonstrate that the real growth in co-operatives as competitively important enterprises has occurred during the era of high taxes since the Second World War.

The tax structure, the demand for capital and the high rates of interest have imposed severe limitations on the ability of small and medium-sized business concerns to raise sufficient funds to stay in the race. Therefore, every dollar that can be made available for either working capital or long-term investment is extremely important. Any government regulation or law which increases the amount of money so available to an individual firm or to a certain class of business is of major competitive advantage to those preferred. If such provisions apply to one group but not another and all are competitors then obviously the law is discriminatory. This unfair situation established by Canadian tax legislation has had the effect of encouraging and legalizing a competitive practice which is not only injurious to ordinary businesses but which is also grossly inconsistent with a large body of other federal law designed to prohibit discrimination or unfair practices between business competitors which might have the effect of lessening competition.

In some particular areas of merchandising and of marketing, the tax advantage of co-operatives is not only lessening competition, but it is viewed as threatening the continued existence of private business. Outstanding examples are as follows:-

1. Lumber and Building Supplies

   Co-operative gains in the sale of lumber and building supplies, particularly in Western Canada, are of consider-

able significance. During the past five years the number of co-operative outlets has risen by some 150 while the number of "private" retail lumber outlets has been reduced in comparable numbers. These co-operatives "are now established in all the larger centres as well as in the smaller places where they have frequently bought out or squeezed out independent competitors." [1] Co-operative lumber outlets have demonstrated that they can conform, with relative ease, to changing patterns and that they can successfully compete in any community. They utilize the advantage of managerial efficiency but of greater importance is their access to capital for financing establishments and expansion, which cannot possibly be matched by private dealers, because of the income-tax advantage accruing to co-operatives.

2. Hardware

A similar situation exists in the hardware trade. We have previously referred to the co-operatives' impressive rise in total sales and this increase is due "in part from a more rapid expansion of existing store facilities and in part from the crowding out of competitors." [2]

As compared to the sources of capital available to an independent dealer the co-operatives' superior access to capital stemming from its tax position and various sources within the movement accounts in large part for the manner in which co-operatives can finance a new business or "take-over" with relative ease. To the extent that new "private" capital does not flow into such areas the outcome of the competitive struggle is inevitable -- the total share of the industry declines for ordinary business and surges ahead for co-operatives.

1. "Post-War Taxation of Canadian Co-operatives" p. 38
2. Ibid p. 29.

At the wholesale level there has been a remarkable relative growth in the sales of hardware and equipment. The financial resources of hardware "wholesales" are being effectively employed to develop the increasing urban emphasis in co-operative merchandising and this activity is likewise accompanied by a marked relative decline in the activities of "private" wholesale hardware outlets who have been traditionally strong in the supplying of primarily rural areas.

3. Feeds and Fertilizers

The relative gains in co-operative merchandising of feeds and fertilizers have been substantial but not as proportionally large as in other areas. Nevertheless, they are the subject of deep concern by many of their competitors. Of much greater significance, however, is the co-operative entry into the manufacture and distribution of these products. This is an example of the subsequent diversification of what was originally an agricultural marketing operation. The competitive strength of co-operatives in feeds and fertilizers is discernible from their rising proportion of total sales and merchandising outlets. Here again, as in other areas, this is attributable mainly to tax advantage and has had the effect of eliminating competitors in particular geographic areas.

4. The Grain Handling Trade

It is of course in the Canadian grain trade that co-operative marketing has developed its greatest strength and where its largest and most diversified operations are to be found. In this sector co-operative marketing activities are highly concentrated and carried out by the Manitoba, Saskatchewan and Alberta Wheat Pools and, in

some respects, by the United Grain Growers Limited. This is one of the sectors in which the impact of co-operative taxation advantage has been most apparent. In consequence, throughout the post-war years, the competitive position of the investor-owned industry has been seriously affected.

Table XIX (Relative Number of Elevators operated by the Three Pools, United Grain Growers Ltd. and Line Elevator companies and Estimated Proportion of Business Handled by Co-operatives and Investor-owned Business - Selected post-war years) and Table XX (Pool Country Elevator Receipts and Percentage of all Country Elevator Receipts Handled by Pool Elevators - Selected post-war years) will give some indication of the results of the discrimination.

From the Tables it will be observed that in the crop year 1946-47 there was a total of 5,399 licensed elevators of which 3,136 were operated by Line Companies, 507 by the United Grain Growers Ltd. and the remaining 1,756 elevators were operated by the Wheat Pools. Expressed as a percentage the distribution was 58 per cent Line Company elevators and 42 per cent Pool and U.G.G. elevators. The division of estimated business done by the Line Elevators was 48 per cent as against 52 per cent for the three Pools and U.G.G. Ltd.

In the crop year 1959-60 the figures had changed considerably. There were 5,308 licensed elevators of which 2,567 (48 per cent) were Line Company elevators, 794 U.G.G. Ltd. and 1,947 Pool elevators (52 per cent). Percentage of estimated business handled by the Line Elevator companies had decreased to 39 per cent, and the business of the three Pools and U.G.G. Ltd. climbed to 61 per cent of the total.

Again for the crop year 1961-62 there was a total of 5,266 licensed elevators of which the Line Companies were operating 2,325 (44 per cent); the U.G.G. Ltd. were operating 774 and the Pools 2,167 (56 per cent). The percentage of estimated business for Line Company elevators had decreased to 34 per cent (part of the reduction is due to the sale of assets) and the three Wheat Pools and U.G.G. Ltd. share had risen to 66 per cent of the total.

Thus the number of elevators operated by investor-owned businesses has declined by 811 since 1947 and the number operated by the Pools and U.G.G. Ltd. has increased by 678. While this in itself may not be of the greatest significance it does illustrate that the transfer of ownership of grain elevators from investor-owned businesses to co-operative control has become a familiar trend since the end of World War II. The important consideration, however, is not the number of elevators taking deliveries of grain but the transfer of business amounting to 14 percentage points from investor-owned business to the co-operatives during the period in question.

While it is recognized that there may often be other factors which influence the changing position of competitors there seems to be no margin of doubt but that, in the grain handling business, as in others, the abnormal growth rates of co-operatives can be directly attributed to the tax advantages which the co-operative elevator companies have long enjoyed. These stem, in the main, from Section 75 of the Income Tax Act which provides co-operatives with the opportunity of limiting their tax liability to as low as one-tenth of the income tax paid on similar earnings by their investor-owned competitors. This is the Section which also provides a convenient method whereby co-operatives may allocate patronage dividends as a deduction from earnings for tax purposes

and withhold payment of these dividends in the form of loans from the members, thereby creating a source of tax-free capital. In the case of the Pool Elevator companies tax-free additions to their capital continuously augmented by these patronage loans have enabled these organizations unfairly to augment and diversify their operations at the expense of their fully-taxed competitors. As has been pointed out earlier, the provisions of Section 75 are practical in the hands of co-operatives and impractical for the purposes of ordinary businesses.

The extent to which investment in plant and equipment has grown, diversification has occurred and tax savings have been a factor in growth can be deduced from Table XXI (Comparative Balance Sheet Value of Plant and Equipment Manitoba Pool Elevators, Saskatchewan Wheat Pool and Alberta Wheat Pool at July 31st, 1958, and July 31st, 1962) and Tables XXII and XXIII which set forth a provision for income tax expressed as a percentage of net earnings for Saskatchewan Wheat Pool and Alberta Wheat Pool for the years 1952-53 to 1961-62.

While it is not possible (from the information we possess) to arrive at a realistic value of the actual worth of these companies the Balance Sheet values of investment in plant and equipment are indicative. The ten-year average rate of income tax epxressed as a percentage to net earnings for Saskatchewan Wheat Pool is 10.3 per cent and for the Alberta Wheat Pool it is 5.4 per cent. These rates of tax liability disclose the essence of the discrimination when it is considered that the investor-owned businesses competing with the Pool Elevator companies are assessed on their corresponding earnings at average rates which exceed 50 per cent.

In the grain handling business the major source of

revenues for both co-operatives and investor-owned companies is the same - payments made by the Canadian Wheat Board for the handling and storage of farmers' grain. These revenues are based upon equal charges made without distinction for one group or the other. Other operations of grain handling companies are basically the same. The fact is that the co-operative grain handling companies are engaging in business in the same manner as ordinary corporations, performing the same services and with the same result, namely the making of profits, or alternatively the incurring of losses, in both cases for the account of the organizations themselves rather than their members. They are in no way different from ordinary business enterprises. To the extent that they are not called upon to pay taxes on the income or profits they earn, their cost of doing business is reduced and they enjoy an unfair competitive advantage which tends to eliminate and in a number of instances has actually eliminated their private enterprise competitors.

5. The Dairy Industry

In the dairy industry a noticeable characteristic has been the process of co-operatives taking over the production facilities previously owned by individuals or private corporations. Many of these purchases have required large financial commitments. The financing of the Twin Cities Co-operative, mentioned below, is a case in point, but the method is of course by no means limited to dairying operations. In this connection we refer to the publication "Recent Growth in Canadian Co-operatives":-

> "As of late 1961, the most recent example of such a 'take-over' was the action of the United Milk Producers, an association of 558 shippers of fluid milk to the Halifax-Dartmouth area, in Nova Scotia. They established the new 'Twin Cities Co-operative' as

> an instrument for acquiring ownership of Maple Leaf Dairy (and its subsidiary, Farmers' Dairy) at a cost of $1.3 million, and thereby gaining control over the distribution of three-quarters of all the milk sold in the Halifax-Dartmouth market. Membership in Twin Cities Co-operative cost $50, and since $200,000 in cash was required to effect the take-over, members were also asked for a contribution of $100 per can, for each can of milk quota they had. Further financing was to take the form of a voluntary continuing 'check-off' of 25¢ per can, after the new co-operative took over, and profits were to be ploughed back into the business, in order to complete the purchase. Each producer would be 'allocated' his profit in the form of additional share capital." [1].

This again serves to illustrate the potency of reinvested tax-free patronage dividends in the formation of the co-operatives' capital structure. Co-operative dairies have other techniques at their disposal, not available to their private competitors, apart from the retention of tax-free patronage dividends. One of these will have been noted in the foregoing statement "a voluntary, continuing, 'check-off' of 25¢ per can". The daily receipt of milk and cream from members, paid for semi-monthly,with a small percentage deduction from members' produce cheques over a large number of members provides a convenient method of continuous financing for the co-operative.

Faced with this combination of techniques the competitive position of ordinary business in this situation is grave. If more equitable tax arrangements are not achieved the inevitable outcome will be complete "take-over" for the co-operatives. To illustrate this statement, reference to Table VIII will disclose that between the years 1947 to 1961 co-operatives increased their share of the market from 25 per cent to 43 per cent.

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1. "Recent Growth in Canadian Co-operatives" - Footnote Page 30.

6. Fishermen's Co-operatives

Table XXIV presents a summary of the growth of fishermen's co-operatives in Canada from 1948 to 1960. Their marketing activities far exceed merchandising and while their growth in sales is modest in relation to the general trends in co-operative marketing and merchandising, the fact remains that the total volume of business has climbed from $16.9 million in 1948 to $22.9 million in 1960. Most of this increase is attributable to the sales of fish which have risen by one-third. It is of particular significance that most of this increase has been realized since 1958. For the crop year ended July 31, 1961, the total volume of business reported by fishermen's co-operatives amounted to $21.6 million and the value of fish marketed $17.4 million.[1] While this may appear to indicate a decline in sales it is accounted for by one interprovincial association previously reported in the summary of fishermen's co-operatives being reclassified as a wholesale association. The information for this co-operative is now reported in the statistical data of co-operative wholesales. The 1961 publication of "Co-operation in Canada" produced by the Economics Division, Canada Department of Agriculture, states at page 14 that the 1959 and 1960 data where they appear, have been revised in accordance with the foregoing re-classification.

The same report, however, states that the 1960-61 value of fish marketed increased modestly over 1960. Five additional fishermen's co-operatives were reported in Saskatchewan and one in Alberta. Their activities with the increased sales in three of the Atlantic Provinces

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1. "Co-operation in Canada" 1961, p. 15.

more than offset the decrease in sales which took place in Ontario and Quebec.

F. CO-OPERATIVE ACTIVITY 1961-62

To this point our submission has examined the general scope of co-operatives in marketing and merchandising, during the course of which, some mention has been made of the vertical and horizontal integration of co-operatives and the diversification which has occurred in many of their operations. For the sake of illustration, the situation in the province of Saskatchewan will be dealt with, first because Saskatchewan is the province in which co-operative activity is most developed and second because the most comprehensive statistics are available in respect of it.

The services rendered by co-operatives of all types operating in Saskatchewan during 1961-62 amounted to $570,832,000. (Tables XXV and XXVI). Peak figures were realized in 1960-61 when the total was about $7 million higher. The difference was due to unfavourable crop conditions in 1961. In spite of this set-back the business of all co-operative organizations in Saskatchewan amounted to over a half billion dollars, an increase of $231 million (68 per cent) over the year 1954-55. This figure includes the value of products handled by marketing associations on behalf of their members, the value of merchandise sold by consumer and distributing co-operatives, loans made by credit associations and the premium income of insurance companies. The figure, therefore, is considerably higher than that which has been reported for Saskatchewan in the 1961 publication "Co-operation in Canada".

Tables XXV and XXVI show individual memberships in co-operative associations at a total of 919,974 although some duplication exists due to memberships in more than one association by numerous individuals. Total population in Saskatchewan for 1961 is

reported at 925,000. Table XXV shows total assets at the end of 1961-62 of almost $392 million, an increase of $14 million or 3.7 per cent over the previous year and an increase of more than $172 million or 78 per cent over the year ended 1954-55. Net fixed assets of $88 million were also greater by more than $14 million or 19 per cent over the former year and reflect a growth of more than $38 million (77 per cent) since the year ended 1954-55. Liabilities to the public of $118 million were down by $13 million as compared to the previous year. This figure compares with $101.9 million for the year ended 1954-55. Paid up capital of $143 million was up $26 million. This figure compares to $35 million in 1954-55 and reflects an increase of $108 million or 300 per cent. Reserves and undivided surplus remained about the same as the previous year at $48 million and this figure compares with $27 million in 1954-55.

Table XXVII sets forth the earnings of co-operatives for the eight-year period from 1954-55, when earnings were $10.2 million, to 1961-62 when earnings are reported at $17.9 million. As in the case of co-operative sales, the peak earning year was 1960-61 with a figure of $21.7 million. Aggregate earnings for the eight-year period totalled $123.5 million.

Table XXVIII sets out the percentage of total co-operative business in Saskatchewan accounted for by the various types of operation, with grain and other marketing activities accounting for 52.5 per cent of the total.

In the year 1961-62 co-operative organizations accounted for 64 per cent of all grains marketed in the province. This is an increase of 4 per cent over the previous year. The Saskatchewan Wheat Pool accounted for almost all grain marketing accounting for 55 per cent of the provincial total.

In the same year the value of livestock handled through

co-operative channels amounted to $77 million, an increase of $10 million or nearly ten times the normal; co-operative dairy and poultry handlings were $30.8 million, up one-half million dollars from the year before; flour milled increased from $6.2 million to $7.3 million. While there were some decreases in the amount of honey marketed, the number of hatcheries operated and quantities of oil seeds processed, the decreases were of small importance relative to the upward trends of co-operative marketing activities generally.

Tables XXIX and XXX show the financial results of co-operative marketing associations reporting operations for 1961-62. It will be noted that operating results for the period 1954-55 through 1961-62 are shown. It will also be observed that for the year 1961-62 the co-operative associations have been divided into various classes or types according to the commodities marketed.

Decreases in total assets, liabilities to the public and in the total amount of commodities sold or handled for the year 1961-62 compared to the previous year were due mainly to a smaller carry-over of grain by the Saskatchewan Wheat Pool, and a smaller volume of grain and forage crop seeds handled during the year by the grain and forage crop marketing associations, due to the light crop of 1961.

All associations in the wholesaling and retailing group reported increased services during 1961-62 amounting to $5.7 million or 7.3 per cent. The largest increase was registered by the co-operative wholesale at 15 per cent. Sales by retail consumer co-operatives in 1961 also increased by $1.5 million or 2 per cent to a total of nearly $86 million for the year. Retail sales by consumer co-operatives represented 9.4 per cent of all retail sales in the province during 1961 as compared to 8.9 per cent the preceding year. [1].

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1. 1962 Eighteenth Annual Report, Department of Co-operation and Co-operative Development, Province of Saskatchewan.

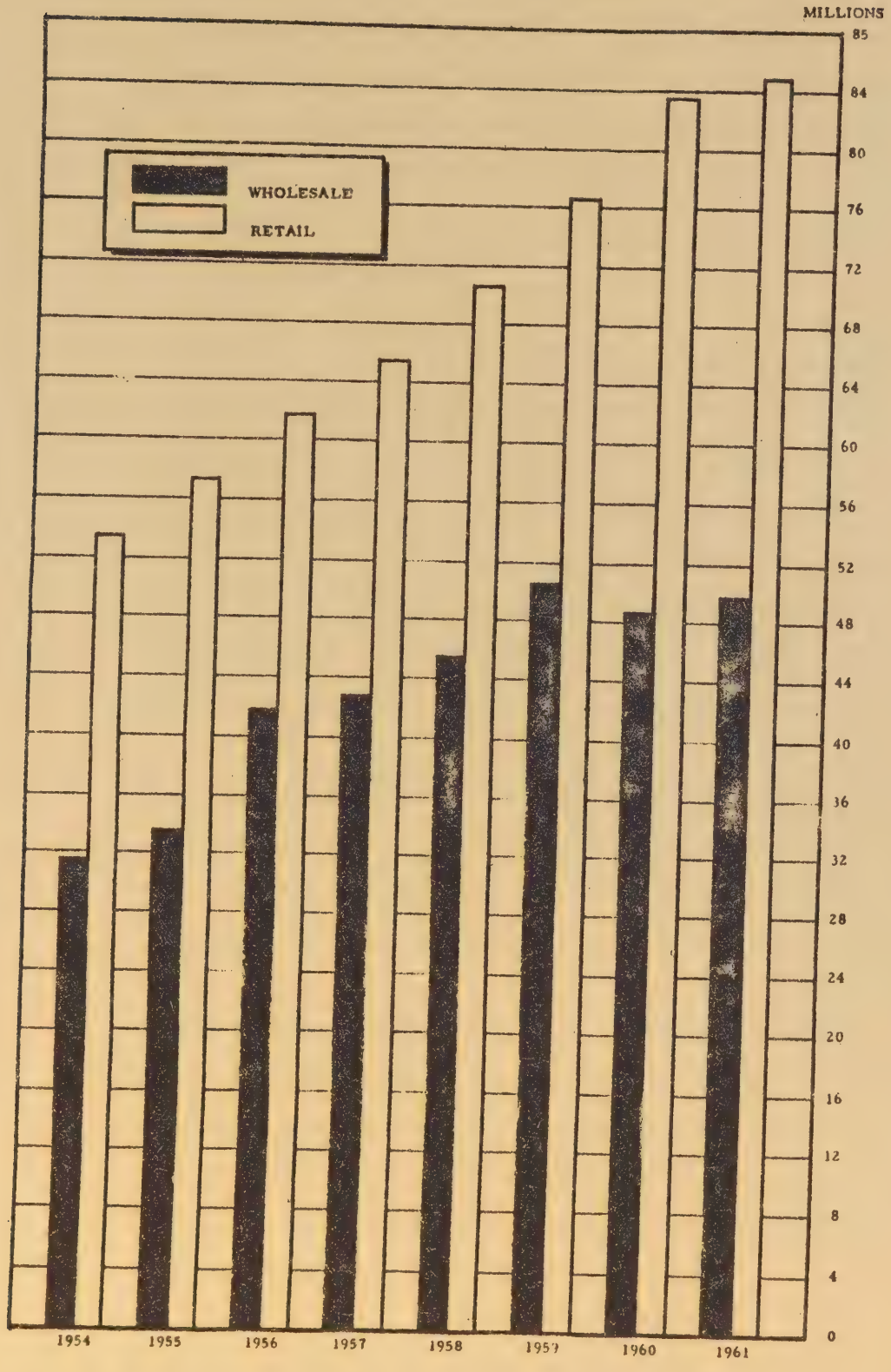
Table XXXI refers to the financial results of operations of Federated Co-operatives Limited and traces its pattern of growth from 1934 to 1961. In 1944 refinery and wholesale operations were amalgamated and in 1952 the refinery became a separate wholly-owned subsidiary. Sales in 1955 and since include Manitoba resulting from an amalgamation of co-operative wholesale operations in the two provinces. It will be noted that for the period 1954 to 1961 sales much more than doubled from $31.6 million to $71.9 million; earnings have steadily increased from $1.0 million to a high of $4.2 million in 1959 followed by $3.5 million in 1960 and $3.2 million in 1961; total assets have about doubled from $21.3 million to $41.6 million. In 1962 the Alberta Co-operative Wholesale amalgamated with Federated, merging co-operative wholesale operations into the centralized control of Federated for the three prairie provinces. Federated sales in 1962 were $94.8 million, an increase of 300 per cent over 1954.

Federated now operates in all three prairie provinces. Warehouses are operated by Federated at Regina, Swift Current, Yorkton, Winnipeg and Saskatoon. In addition to these a feed plant is operated in Saskatoon, an oil refinery at Regina, a saw mill at Canoe, British Columbia.

The upward trend in sales of co-operative associations continued for the year 1961 with an over-all increase of $1,500,000 over the previous year. Chart I (Page 66) is a graphic illustration of the manner in which the sales of co-operative wholesale and retail associations in Saskatchewan have climbed since 1954 to an impressive share of the total provincial market. Retail sales by consumer co-operatives represented 9.4 per cent of all retail sales in the province during 1961 as compared to 8.9 per cent the preceding year. This percentage is all the more significant when it is considered that consumer co-operatives are relatively new entrants in the retail field, starting from a small base and merchandising a limited range of commodities. Table XXXII

CHART I

Sales of Co-operative Wholesale and Retail Associations in Saskatchewan, 1954 to 1961



Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, "Eighteenth Annual Report", 1962, p. 40.

refers to the sales of commodities reported by consumer co-operatives in Saskatchewan, 1961.

Table XXXIII shows the financial results of consumer co-operatives engaged in the retail business in Saskatchewan for the eight-year period 1954-61. Tables XXXIV and XXXV (Saskatoon and Sherwood Co-operative Retail stores) are exhibited as samples of the extensive trading operations of some co-operative supermarkets. Table XXXVI is a combined operating statement of 325 consumer co-operative associations operating in Saskatchewan in 1961.

At the close of 1961, total assets of co-operatives engaged in the retail business amounted to $52,846,902. This is an increase of 98.9 per cent compared to 1954. A large part of the increase in total assets has been in fixed assets with the dollar value of fixed assets at the close of the 1961 fiscal year being over $3 million more than at the close of the previous year. The sales volume of most associations as indicated by the various tables has been increasing steadily.

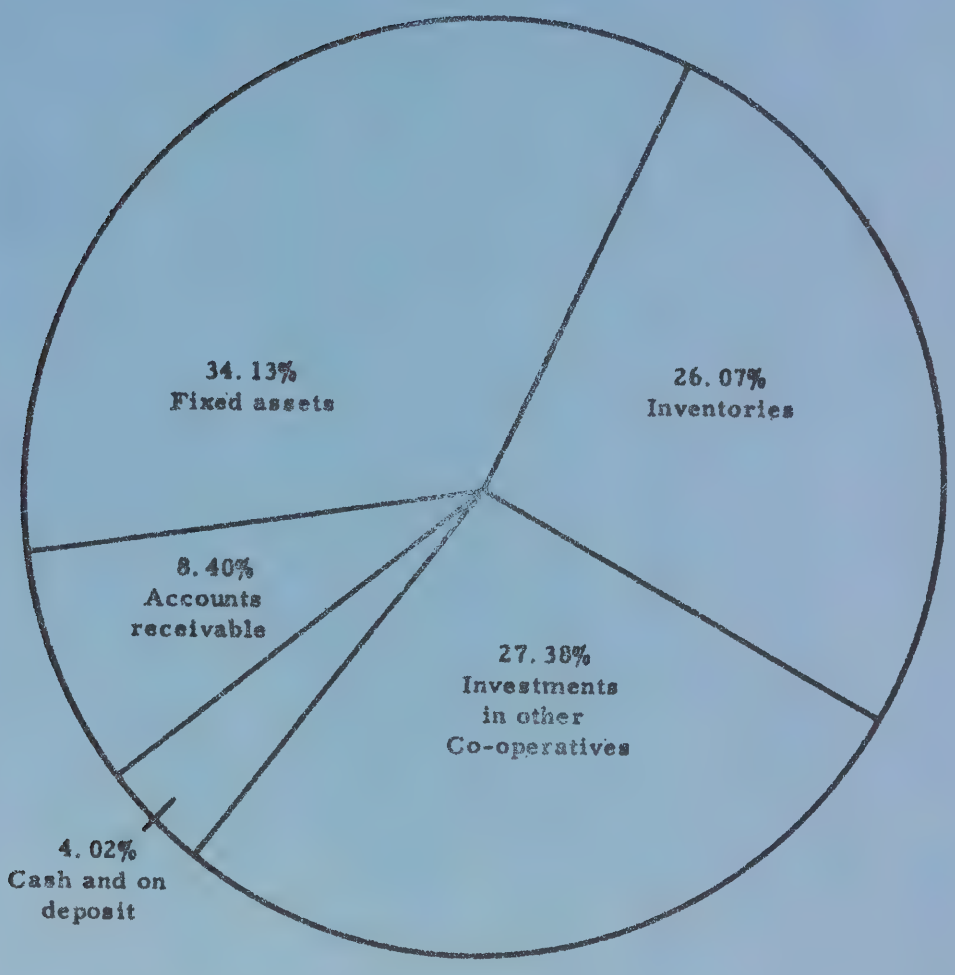
Charts II and III (Pages 68 and 69) indicate how the assets and liabilities of consumer associations are distributed. It will be noted that 27.38 per cent of total assets represents investments in other co-operatives.

There are three organizations in Saskatchewan incorporated under Provincial Legislation, providing special services of a co-operative nature. These are the Co-operative Union of Saskatchewan, Co-operative Hail Insurance Limited, Saskatchewan Municipal Hail Insurance Association and its subsidiary The Additional Municipal Hail Limited.

The Co-operative Union of Saskatchewan was incorporated in 1944 and is a member of the Co-operative Union of Canada. The

CHART II

Assets of Consumer Associations 1961



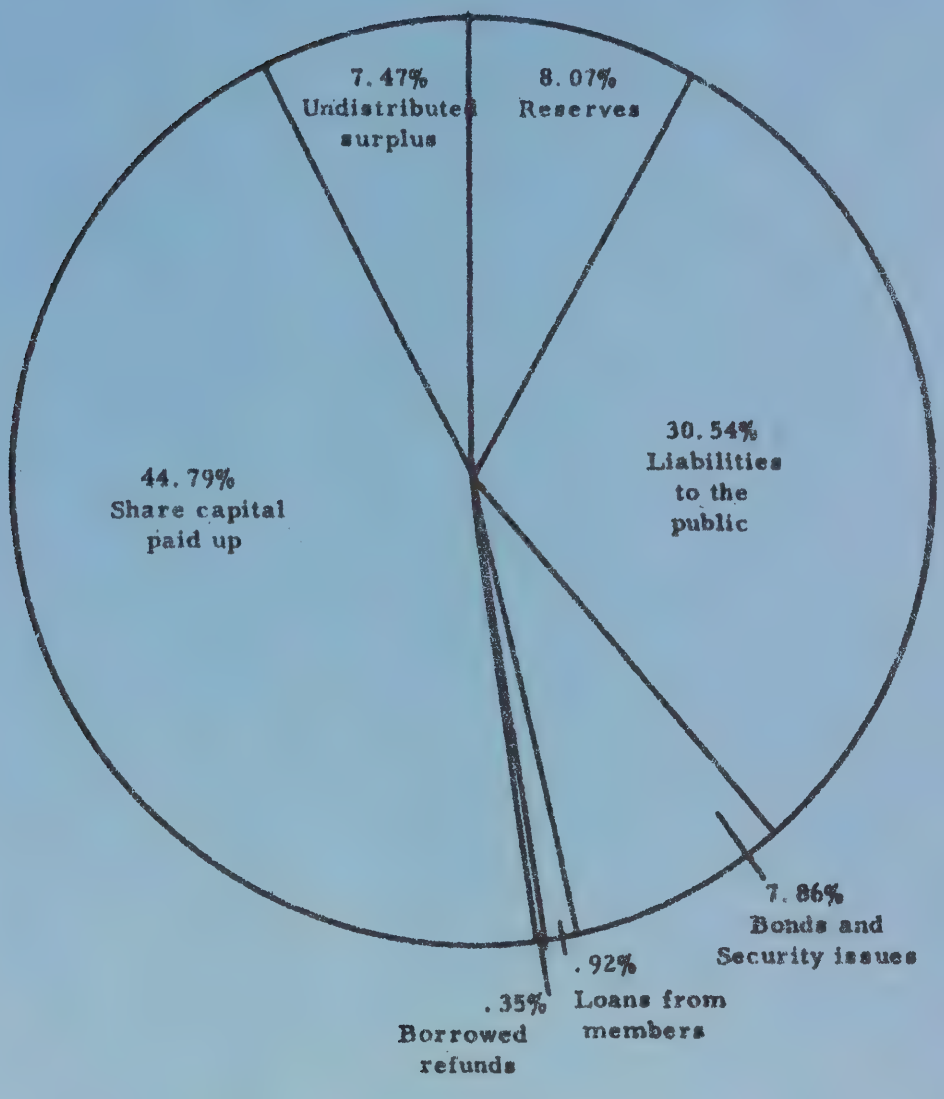
Accounts receivable (net)	$ 4,438,482	8.40%
Inventories	13,778,344	26.07%
Cash and on deposit	2,125,552	4.02%
Investments in other Co-operatives	14,468,786	27.38%
Fixed assets	18,035,738	34.13%
Total Assets	$52,846,902	100.00%

Source: Department of Co-operation and Co-operative Development

Source: Department of Co-operation and Co-operative Development,
Province of Saskatchewan,
"Eighteenth Annual Report", 1962, p. 42.

CHART III

Liabilities of Consumer Associations 1961



Liabilities to the public	$16,142,097	30.54%
Bonds and Security issues	4,151,280	7.86%
Loans from members	483,787	.92%
Borrowed refunds (Patronage loans and deferred dividends)	186,152	.35%
Share capital paid up	23,670,466	44.79%
Reserves	4,264,123	8.07%
Undistributed surplus	3,948,997	7.47%
Total Liabilities	$52,846,902	100.00%

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, "EIGHTEENTH ANNUAL REPORT", 1962, p. 43.

head office of the Union is located in the "Co-op Block" Regina. Funds required to carry on activities of the Union are supplied mainly from the member associations through payment of annual dues. The Union operates a film library for the use of local co-operatives and provides pamphlets and other material. Secretarial services are provided through the Saskatchewan Federation of Agriculture and the Union undertakes co-operative education and public relations projects.

The Co-operative Hail Insurance Co. Ltd. was incorporated on May 31, 1947, under the "Co-operative Insurance" section of the Saskatchewan Insurance Act. The Company is also licensed to carry on hail insurance in the province of Manitoba. The head office is in Regina. Total membership in the company as at December 31, 1961, was 42,689 of which 33,088 reside in Saskatchewan. Hail insurance coverage during 1961 amounted to $5,825,596 in Saskatchewan and $2,810,000 in Manitoba. Loss claims in 1961 were $63,260 in Saskatchewan and $26,885 in Manitoba. Earnings of $98,590 were shown from the year's operations after providing for re-insurance. The net earnings which included returns on investments amounted to $146,498. Paid up share capital in the company at the end of 1961 amounted to $575,187 and reserves amounted to approximately the same.

Hail insurance coverage by the Saskatchewan Municipal Hail Insurance Association and its subsidiary, The Additional Municipal Hail Limited during the year which ended January 31, 1962, amounted to $49,057,758. Insurance coverage was provided to 36,391 farmers and total claims paid in 1961 amounted to $949,250. Total assets of the Saskatchewan Municipal Hail Insurance Association including those of The Additional Municipal Hail Limited, amounted to $9,133,990 as reported at January 31, 1962. Reserves and surplus at the same date amounted to $9,128,816.

G. INTERPROVINCIAL CO-OPERATIVE ORGANIZATIONS

In addition to the foregoing, there are co-operative organizations operating in Saskatchewan which are interprovincial in scope. This group includes The Co-operative Fire and Casualty Company, Co-operative Life Insurance Company, Interprovincial Co-operatives Limited, Canadian Co-operative Implements Limited, United Grain Growers, Limited, and Canadian Co-operative Wool Growers Limited.

1. The Co-operative Fire and Casualty Company

The Co-operative Fire and Casualty Company was incorporated under a Special Act of the Parliament of Canada in June, 1951. Head office of the company is located at Regina and branch offices are maintained at Winnipeg, Edmonton, Moncton, Vancouver and Regina.

A special department of the company is designed to specialize in insurance on premises, inventories and equipment of consumer co-operatives. General fire and casualty insurance, group, accident and automobile coverage are provided and fidelity and surety bonds are issued.

At the end of 1961 the company is reported to have a total membership of 92,361 of which 4,427 are residents of Saskatchewan. Total earned insurance premiums for the year amounted to $4,246,990 of which $180,495 was from Saskatchewan policy holders.

Total assets of the company at the close of business in 1961 were $6,132,495, an increase of approximately $1,234,888 compared to the same time the previous year. Reserve and surplus at the close of the 1961 fiscal year amounted to $374,464.

An example of how co-operatives finance each other can

be suitably illustrated by Schedule "C" which sets out guarantees on loans made by various co-operatives to the Co-operative Fire and Casualty Company.

2. Co-operative Life Insurance Company

The Co-operative Life Insurance Company was incorporated originally in 1945 in Saskatchewan as a provincial company. In July 1946 it secured Dominion incorporation and obtained Dominion registration under the Canadian and British Insurance Company Act on April 11, 1947. The company carries on business in all provinces of Canada except Quebec. The head office of the company is at Regina and branch offices are located at Vancouver, Edmonton, Regina, Saskatoon, Winnipeg, and Halifax.

Ordinary insurance and group insurance contracts are issued by the company as well as group pension plan contracts. The company had total insurance of $260,130,576 in force at the close of business, December 31, 1961. This represents an increase of $61,492,765 compared to the same date the year previous. Of the total amount of insurance in force at the end of 1961, $123,843,757 was with policy holders residing in Saskatchewan. Total premium income for the year was $3,191,926 and investment income during the year amounted to $515,508, making a total income of $3,707,434 compared to $3,115,517 in 1960. The net operating income of the company from 1961 operations was $663,849 compared to $463,000 the year previous.

Total assets at the end of December, 1961, were $11,376,721 compared to $9,592,671 at the same time in 1960. Actuarial reserve for insurance contracts at the end of 1961 amounted to $8,670,595 while surplus and

reserves amounted to $1,008,745. Liabilities to the public were $384,297 and liabilities to members amounted to $1,313,086 at the end of 1961.

3. Interprovincial Co-operatives Limited

Interprovincial Co-operatives Limited incorporated under a Dominion Act in September 1940 was organized to provide the various provincial wholesale co-operatives located throughout Canada with a central purchasing agency. Head office is located at Winnipeg and it has branch offices in most of the provinces.

As previously mentioned, Interprovincial controls the "Co-op" label. It also conducts an export and import business in addition to serving the co-operative wholesale organizations of Canada. Imports during the past year consisted of such commodities as twine, sewing machines, chemicals, antibiotics, vitamins, organic and mineral supplements, coffee, tea, peanuts, walnuts, canned fruit and fruit juices. The total volume of goods imported by Interprovincial during 1961 amounted to $2,909,523. Exports during the same period amounted to a total value of $678,401 and consisted mainly of flour.

Total assets of Interprovincial at October 31, 1961, were $3,470,194. At the same date liabilities to the public were $1,545,790, loans from member co-operative organizations $933,123, paid up capital $546,447 and surplus and reserves $444,834.

For the fiscal year 1961, regional member co-operatives made purchases from Interprovincial amounting to $22,454,387 of which $8,036,273 were purchased by member organizations in Saskatchewan. Non-member

organizations purchased a total of $4,137,051. Net earnings from 1961 operations amounted to $332,089. As has been mentioned the chemical plant in Saskatoon has been opened this year.

4. Canadian Co-operative Implements Limited

This co-operative was organized by farmers of the prairie provinces for the purchase of machinery. It was incorporated under Dominion charter in 1940 and incorporation was confirmed by a Special Act of the Saskatchewan legislature, March 25, 1948.

Distribution of machines and parts is effected to local co-operatives and depots and branches of Canadian Co-operative Implements Limited. A factory is operated at Winnipeg, which manufactures small farm machinery, tillage cultivators, harrows and discers. Heavy farm machinery such as tractors and combines are supplied to Canadian Co-operative Implements Limited by other manufacturers. Arrangements were made during the year 1961 to import a number of tractors and combines from European countries.

Total sales made in the year 1961 amounted to $7,717,069 and of this amount $4,000,740 were sales made in Saskatchewan. Total assets of Canadian Co-operative Implements Limited at the end of the fiscal year 1961 amounted to $5,357,354. This represents an increase of $148,030 compared to the previous year. At the same date liabilities consisted of $288,029 in current liabilities, and $52,833 in long-term liabilities. Total capital stock, reserves and surplus amounted to $5,016,492 and consisted of capital stock $4,196,729, reserves $282,598 and a net surplus of

$537,165. Membership at the end of the 1961 fiscal year numbered 64,270 of which 36,014 resided in Saskatchewan.

5. United Grain Growers Limited

The Grain Growers' Grain Company formed in 1906 and later amalgamated with the Alberta Farmers' Co-operative Elevator Company eventually became the United Grain Growers Limited. It is one of the oldest co-operative organizations in western Canada.

The company operates a country elevator system of 774 elevators located in the three prairie provinces, and in addition to these has terminal elevators at Vancouver and Port Arthur. There are 282 country elevators operated in Saskatchewan by the United Grain Growers Limited.

Six wholly-owned subsidiary companies are owned by United Grain Growers Limited. These are:-

* The Grain Growers Export Company Limited,
* United Livestock Feeds Limited,
* Public Press Limited,
* United Grain Growers Insurance Agencies,
* The Country Guide Limited,
* United Grain Growers Terminals Limited.

These companies are all actively engaged in business with the exception of United Grain Growers Terminals Limited, the business of which is now carried on by a department of the main company, and the Country Guide Limited, the work of which is now carried on by the Public Press Limited.

All the shares of each subsidiary company are owned by the United Grain Growers Limited whose Board of Directors acts as such for each subsidiary.

Total shareholders at July 31, 1962, numbered 55,285, of which 16,078 reside in Saskatchewan.

The value of grain marketed by the company in 1961-62 amounted to $70,825,004 of which $25,150,985 was marketed by Saskatchewan farmers. Farm supplies are also handled by the company and the total value of these in 1961-62 amounted to $7,663,002 with $1,990,223 being sold in Saskatchewan.

Total assets of the United Grain Growers Limited as at July 31, 1962, amounted to $68,228,668. Paid up capital amounted to $4,819,000, reserves and surplus $11,713,098. Net earnings from the 1961-62 operations after providing for patronage dividends of $650,000 and provision for income tax amounted to $257,825.

6. Canadian Co-operative Wool Growers Limited

The Canadian Co-operative Wool Growers Limited, organized in 1918 under The Dominion Companies Act, is one of the older co-operatives providing services to agriculture throughout Canada.

During the fiscal year ended February 28, 1962, sales of wool handled by The Canadian Co-operative Wool Growers Limited amounted to $1,471,027, of which approximately $224,300 represented wool from Saskatchewan. The C.C.W.G. received 642,644 pounds of wool and 916 pounds of pelts from Saskatchewan shippers during the year. Stockmen's supplies, twine, sacks, bail covers and manufactured woollens amounting to a total value of $115,411 were sold by the company during the year and of this amount $11,513 was handled by the Regina branch. During the year under review the company handled approximately 60% of the total Canadian wool clip passing through all Government

registered wool grading houses in Canada.

Of a total membership of 1,452 shareholers, 169 are residents of Saskatchewan. Total assets at the end of the Canadian Co-operative Wool Growers Limited fiscal year amounted to $622,866. Liabilities at the same date consisted of $80,054 to the public and $140,770 in paid up share capital. Reserves and surplus amounted to $402,042.

Further Co-operative activity in the province is carried on by Federated Co-operatives Ltd. and Saskatchewan Wheat Pool. Certain information has already been provided in relation to both organizations and details of their diversity of interests are dealt with in the succeeding section.

The general source of information relating to co-operatives in Saskatchewan, contained in this section, has been the 1962 Eighteenth Annual Report of the Department of Co-operation and Co-operative Development, Province of Saskatchewan.

XI. SPECIFIC EXAMPLES OF INTEGRATION AND DIVERSIFICATION

To illustrate the extent to which large co-operatives have been able to expand, develop integrated but widely diversified operations and leave far behind anything resembling the simple co-operation between members of the Rochdale Pioneers, the following two examples are given:-

A. FEDERATED CO-OPERATIVES LIMITED

The history of Federated Co-operatives Limited actually dates back to 1928 and involves not only the provinces of Saskatchewan, Manitoba and Alberta but also operations which presently extend to British Columbia. The following is a brief historical outline, year by year.

1928 Alberta Co-operative Wholesale Association (ACWA), incorporated under the Co-operative Associations Act of Alberta, on March 10. Began with a part-time staff, at Killam, as a buying agent to pool purchasing power. Nine original members.

1929 Saskatchewan Co-operative Wholesale Society (SCWS) incorporated under a Special Act of the Saskatchewan Legislature. Shares costing $100 each subscribed to by 29 associations.

The Manitoba Co-operative Wholesale Limited (MCW) began operating in a small office with a staff of three.

1930 ACWS sales $62,000; MCW sales $334,000; SCWS sales $586,000.

1934 Consumers' Refineries Co-operative Association Limited was incorporated under the Co-operative Associations Act of Saskatchewan by 10 co-ops in the Regina area. In November, the decision to build a co-operative refinery was made.

1934 MCW sales were about $395,000; SCWS sales about $342,000.

1935 With its name changed by Special Act, Consumers' Co-operative Refineries Limited (CCRL) first went "on stream" on May 27. It represented a members' investment of only $32,000, and was capable of processing 500 barrels of crude per day. Earnings in the first year, reached almost $30,000.

1938 ACWA was completely re-organized. It set up offices at Edmonton with 9 associations becoming members. The plan was to accumulate savings created through providing a brokerage service to members as a means of financing entry into wholesaling.

1939 SCWS purchased a 250-barrel capacity flour mill at Outlook.

CCRL embarked on an expansion plan as sales, for the first time, exceeded one million dollars. 146 co-ops were now purchasing petroleum from the Refinery.

ACWA began distribution of CO-OP MAID feeds.

1940 ACWA was now serving 68 member associations.

CCRL completed its first 12 month period of continuous operations. A Dubbs cracking plant was completed and put into operation, increasing capacity to 1,500 barrels per day.

1940 (continued)	Canadian Co-operative Implements Limited completed organization and obtained its charter. Office opened at Regina.
	Interprovincial Co-operatives Limited obtained a charter. Early members included ACWA, SCWS, and MCW.
	SCWS obtained a substantial interest in the Hy-Grade Coal Mine at Drumheller.
1941	SCWS purchased its first building at Saskatoon.
	CCRL sales reached $1,842,000; earnings about $304,000.
1942	SCWS began manufacture of livestock feeds at Saskatoon. Groceries were handled by SCWS for the first time when a new department was opened at Regina.
1943	SCWS feed department expanded services by opening a plant at Regina.
	MCW purchased a feed plant and commenced handling livestock and poultry feeds from Winnipeg.
1944	CCRL and SCWS amalgamated to form Saskatchewan Federated Co-operatives Limited (SFCL). The new organization purchased a building in Saskatoon for lumber and feed warehousing, and also a building at Regina.
	CCIL purchased a factory at Winnipeg for the manufacturing of farm implements.
	MCW laid plans to enter the wholesale grocery business.
	SFCL acquired complete ownership of the Hy-Grade Coal Mine at Drumheller (see 1940) and also opened a wholesale dry goods department.
1945	MCW formally established a hardware department, and also acquired a warehouse and office building at 230 Princess Street, Winnipeg.
	SFCL acquired a lumber mill at Canoe, B.C., also opened a wholesale grocery department at Saskatoon.
	ACWA acquired a warehouse at Edmonton and prepared to begin physical handling of goods in addition to services performed by pooling purchasing power of its members.
	CCIL signed an agreement with a machinery company for the supply of farm machines under the "Co-op" name.

1946 MCW opened a new feed manufacturing plant at Winnipeg.

Interprovincial Co-operatives began active operations in hardware.

ACWA entered into an agreement with the United Farmers of Alberta (UFA) for distribution of petroleum products.

1947 ACWA began a warehousing operation at Grande Prairie to serve co-ops in the Peace River area. Also began department for centralized accounting service.

1948 ACWA established a management service department, and an audit department.

Interprovincial Co-operatives took first steps to enter manufacturing by opening a bag factory at Montreal.

1949 SFCL flour mill at Outlook was closed when the Saskatchewan Wheat Pool opened a large, modern mill at Saskatoon.

ACWA acquired ownership of a feed manufacturing plant at Edmonton; also began distribution of CO-OP Flour to its members; and opened a branch warehouse at Calgary.

1950 ACWA completed erection of a new warehouse at Grande Prairie. Also acquired ownership of 21 retail stores from UFA to end the possibility that UFA and ACWA would both be competing with one another in co-op wholesale business.

1951 Co-op Refinery enlarged to capacity of 6,500 barrels per day.

Interprovincial Co-operatives opened a tea, coffee and peanut butter plant at Burnaby, B.C., and also began handling major appliances.

ACWA completed construction of a new warehouse building at Edmonton and planned to expand its grocery lines.

1952 SFCL feed plant at Regina was closed as operations were consolidated at Saskatoon.

1953 ACWA closed out wholesale operations at Grande Prairie.

Interprovincial Co-operatives began operating a chemical plant at St. Boniface, manufacturing weed killers, insecticides, etc. from purchased ingredients.

MCW opened a wholesale lumber department.

1954 ACWA officials envisaged a single, large, consumer-owned central organization serving co-operatives from the Great Lakes to the Rockies.

A $7,500,000 building program which included installation of a modern catalytic cracking plant was completed to bring the Co-op Refinery capacity to 12,000 barrels per day.

1955 MCW and SFCL amalgamated to form Federated Co-operatives Limited.

Interprovincial Co-ops began handling Co-op fertilizers for the first time. ACWA and FCL participated in this new program.

A new grocery warehouse opened by FCL at Winnipeg.

1956 ACWA placed more emphasis on expansion into petroleum. Directors Report predicted an eventual co-op refinery in Alberta, owned by ACWA and UFA. ACWA now served 104 stores.

Interprovincial expanded into automotive supplies. Co-op tires available for the first time.

1957 ACWA set up a farm supply department involving direct membership in the organization by individual farmers.

A larger, more modern lumber mill opened by FCL at Canoe to replace the former mill which had been destroyed by fire.

1958 A plant to manufacture petroleum coke was installed at the Co-op Refinery as a means of better utilizing bunker and other low grade fuels.

1959 ACWA and FCL annual meetings approved principle of a merger to be effective October 31, 1962.

1960 As a result of plans proceeding ahead of schedule, amalgamation was now to become effective on October 31, 1961.

ACWA closed out farm supply department in preparation for merger.

A new million-dollar warehouse opened at Winnipeg to provide offices and warehouse for FCL Winnipeg Branch.

Unifer and Platformer processes added to Co-op Refinery. Other expansion work was being planned to meet increasing demands. About 40,000 people attended 25th Anniversary celebration at the Refinery on June 18.

Million-dollar feed plant opened by FCL at Saskatoon. Winnipeg feed plant was enlarged.

1961 Merger between ACWA and FCL became effective on October 31.

New warehouse opened by FCL Saskatoon Branch covered more than four acres. Regina Branch warehouse being enlarged.

FCL closed a small distributing warehouse at Tisdale. Many changes made at Canoe Lumber Mill to increase capacity, etc.

Co-op Refinery embarked on major expansion program to increase entire plant capacity to 22,500 barrels per day.

Interprovincial Co-ops planned to erect a multi-million dollar chemical plant at Saskatoon to manufacture actual ingredients required as well as formulate farm and other chemicals.

FCL adopted a Code of Ethics to regulate advertising and merchandising practices.

Interprovincial Co-ops began a new Private Label program, replacing former red, blue, and green labels with new CO-OP and Harmonie brands.

FCL, including Alberta Branch, began an extensive meat program, buying fresh meats on behalf of members.

1962 For the first time, delegates from consumer co-operatives from the Lakehead to the Rockies meet for FCL's 33rd Annual Meeting, at Saskatoon.

Prairie retail co-ops plan to spend an unprecedented $9.5 million on new and expanded facilities.

The foregoing historical sketch is taken from the 1961 Annual Report of Federated Co-operatives Limited presented to the 33rd Annual Meeting of the shareholders in Saskatoon, January, 1962. The information will be found at Pages 6 and 7 of the report. The report forecast an eventual merger between Federated and the British Columbia Co-operative Wholesale Society and stated that the principle of such a merger had been agreed upon by the Boards of each organization.

The general scope of Federated's now rapidly mushrooming operations is further evidenced from its activities for the year ended October 31, 1962, as published by the Co-operative Consumer, January 25 and February 8, 1963, from which the following is extracted:-

FEDERATED CO-OPERATIVES LIMITED

OPERATIONS - Fiscal Year Ending October 31st, 1962

ASSETS:

Total	$48,386,000
Current	23,004,000
Fixed	15,808,000
Wholly-owned Subsidiaries	285,000
Other Assets	9,289,000

LIABILITIES:

Current	$10,359,000
Long-Term	17,154,000

MEMBERS' EQUITY: $20,873,000

NET SAVINGS:

Net Savings Year Ended October 31, 1962 - $2,896,000 - All allocated as Patronage Dividends.

PATRONAGE DIVIDEND ALLOCATIONS:

Petroleum - Light Fuels	9.6 %
- Middle Distillates	4.4 %
- Heavy Fuels	1.25%
- Oil and Grease	6 %
Lumber and Building Supplies	3.25%
Hardware	2 %
Coal	1 %
Dry Goods	1 %
Feed	1 %
Fertilizer	1.25%
Flour	1 %
Groceries	1 %

SALES - FISCAL YEAR ENDED OCTOBER 31, 1962:

Total - $94,826,000 - Increase of $12,372,000 over 1961

Lumber - $11,004,000

Coal - $593,000

Groceries - $22,386,000

Meats - $4,794,000

Dry Goods - $2,824,000 - Increase of 56.9% over 1961

Hardware - $13,012,000 - Increase of 19.6% over 1961

Feeds - exceeded $5,000,000

Flour - 133,000 cwt. - Increase of 8.2% over 1961

Fertilizer - 51,500 tons - increase of 32.1% over 1961

REFINERY:

Crude Oil Production - 453,000 barrels -
- Increase of 148,000 barrels over 1961

Crude Oil Processed - 4,851,000 barrels

Petroleum Products delivered from Refinery - 157,623,000 gallons
- Increase of 10,354,000 gallons over 1961.

Daily Capacity increased from 16,000 to 22,500 barrels.

Petroleum distribution highest in Federated's history -
- Increase of 9.7% over 1961

Lubricating Oil Distribution - 1,607,000 gallons -
- Increase of 3.5% over 1961

Grease distribution - 1,727,000 pounds

SERVICE STATIONS:

125 Service Stations

266 Partial or Pump Stations

MEMBER ORGANIZATIONS:

681 Member Organizations

CONSTRUCTION & EXPANSION:

Participated in 75 projects for remodelling, enlarging or building
- Over $5,000,000

116 Projects under way or planned - $8.8 million

15 new lumber yards opened during year

6 new service stations opened during year

14 new service stations predicted for 1963.

B. THE SASKATCHEWAN WHEAT POOL

The Saskatchewan Wheat Pool was incorporated under The Companies Act of the Province of Saskatchewan in 1923 and was originally named Saskatchewan Co-operative Wheat Producers Limited. The word "Wheat" was dropped from the name in 1944 and the company's name was changed to Saskatchewan Wheat Pool in 1953.

The Saskatchewan Wheat Pool had a total of 1,253 country elevators at the end of the 1961-62 year, with a total storage capacity of 44,144,000 bushels. This capacity has been increased by the use of annexes of various types so that the total storage capacity is now 86,186,000 bushels.

Subsidiary companies of the Saskatchewan Wheat Pool are:-

* Saskatchewan Pool Elevators Limited,
* Saskatchewan Pool Terminals Limited,
* Saskatchewan Wheat Pool Construction Company Ltd.
* Modern Press - Publishers of The Western Producer,
* Saskatchewan Co-operative Livestock Producers Ltd.

The Saskatchewan Wheat Pool is also a joint owner with the Alberta and the Manitoba Pools of Canadian Pool Agencies Limited, Pool Insurance Company Limited and Canadian Livestock Co-operatives (Western) Limited.

In addition to the foregoing the Saskatchewan Wheat Pool operations include a flour mill and vegetable oil division.

For the fiscal year ended July 31st, 1962, the combined operations of all divisions of the company produced an operating surplus of $3,824,452; total assets were $114,910,439; total current assets were $82,443,706 against total current liabilities of $73,319,424 leaving a balance as working capital of $7,440,782.

Capital of the organization is shown by its 1962 Balance Sheet to be invested in the following amounts in the following

varied enterprises:

Saskatchewan Wheat Pool	$ 772,669.00
Saskatchewan Pool Elevators	50,049,552.00
Terminal Elevators	23,044,523.00
Flour Mill	3,234,552.00
Vegetable Oil Plant	1,495,332.00
Vegetable Oil & Flour Mill Power & Sundry	283,648.00
Livestock Producers Ltd.	590,674.00
Saskatchewan Pool Terminal Equipment, etc.	86,213.00
Work Under Construction	489,819.00

The reserve account stood at $10,611,910.

Investments and Memberships were listed at cost at a figure of $587,593.00 and included the following:-

Canadian Co-operative Credit Society 500 shares (on which there is an uncalled balance of $25,000.00)		$ 25,000.00
Canadian Pool Agencies Limited 667 Shares of $10.00 each		6,670.00
Co-operative Trust Company Limited - 2,742 Shares of $10.00 each	$ 27,420.00	
- 4½% Guaranteed Farm Credit Securities due May 19th, 1980	102,400.00	
- 5 - 10 year Guaranteed Investment Certificates	5,900.00	$135,720.00
Federated Co-operatives Limited Share Capital		51,023.00
Local Co-operative Associations Sundry Shares		122,371.00
Pool Insurance Company 1,250 Shares (on which there is an uncalled balance of $32,500.00)		170,000.00
Saskatchewan Co-operative Credit Society Limited 2,950 Shares of $10.00 each		29,500.00

From the foregoing there is ample indication that the co-operative movement is reaching out to new areas rapidly and that it is taking on the form of big business in many fields and is not limited to industries associated with agriculture or rural areas.

XII. LOSS OF TAXATION REVENUES

In the case of Saskatchewan, Table XXV has shown that the total value of co-operative sales and services in 1960 amounted to $531,476,578. Table XXVII indicates that the earnings of Saskatchewan co-operatives on this volume of business amounted to $21.8 million or 4.1 per cent of the total. Application of this percentage to the amount of $47.0 million business transacted in Saskatchewan by co-operatives operating interprovincially (Table XXVI) would produce a further amount of $1.9 million in earnings or a total of $23.7 million for the year.

In the same year, total taxable income in Saskatchewan from all taxable corporations, excluding co-operative corporations, amounted to $100.7 million. [1.] Therefore, co-operative profit in Saskatchewan for the year can be estimated to have accounted for roughly 19 per cent of the total of combined corporation and co-operative income.

Total income tax paid by co-operatives incorporated in Saskatchewan amounted in 1960 to $.8 million.[2.] As has been mentioned the total profit earned by such co-operatives, before any form of distribution took place, amounted to $21.8 million. The percentage of profits paid in income tax was therefore 3.6 per cent. The total profits earned by corporations in Canada in 1960 amounted to $3,335.4 million, while the total income tax paid by them amounted to $1,269.7 million.[3.] The average rate of tax paid was therefore 38 per cent.

This being the case it would seem that co-operatives in Saskatchewan (and the pattern is no doubt similar in other provinces) enjoy a tax advantage over ordinary corporations amounting to 34.4 per cent of earnings. Put in another way, the ordinary corporation on the average pays eleven times more of its profit in income tax than does the co-operative. This startling disparity indicates in a realistic

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1. Department of National Revenue, 1962 Taxation Statistics, p. 160.
2. Ibid.
3. Ibid - p. 110 Statistics p. 115.

way the loss of tax revenues to the Federal Treasury and the extent to which fair competition is impaired by the tax advantage enjoyed by the co-operatives.

Under the new fiscal arrangements commencing in 1962, the provinces have re-entered the corporate taxation field. In the Province of Saskatchewan the corporate rate is 10 per cent (subject of course to a tax abatement of 9 per cent to taxpayers from the Federal Government). The Province is therefore directly concerned with the level of the corporation tax base. It has been seen that only $800,000 in tax was collected from earnings of $21.8 million. This $800,000 was paid on taxable income (after allocation of patronage dividends) of $2.3 million.[1.] Therefore it appears that $19.5 million (or approximately 90 per cent of earnings) was allocated in patronage dividends. Had the Government of Saskatchewan been collecting its own corporate tax at the rate of 10 per cent in 1960, it would have lost revenues of $1.95 million simply because of the special privileges enjoyed by co-operatives. The relative importance of this dissipation of potential revenue can be gauged from the fact that the Province in 1960 would have received approximately $10 million from the taxation of ordinary companies. Thus its combined income tax revenues from corporations and co-operatives could have been increased by approximately 20 per cent.

XIII. CREDIT UNIONS AND CAISSES POPULAIRES

A. INTRODUCTION

This part of the Foundation's submission is concerned with the effect of the tax exempt treatment of Credit Unions and Caisses Populaires and will set forth a number of urgent considerations in support of our recommendations for equity in the taxation of this form of co-operative enterprise.

As previously stated, it is not our intention to criticize co-operatives or the co-operative philosophy. No more is it our

1. Department of National Revenue, 1962, Taxation Statistics.

desire to impugn or discredit the aims of Credit Unions and Caisses Populaires. We are interested in their tax treatment, however, as a matter of principle and as another example of the growth which can be achieved by a section of industry accorded not merely taxation advantage but in this instance complete tax immunity.

For the purposes of definition a Credit Union may be described as an association of individuals joined in membership under a common bond, incorporated under a Provincial Charter and organized originally for the purpose of encouraging thrift and assembling the savings of ordinary people to meet their credit needs. In the Province of Quebec, a predominant grouping of Credit Unions are known as Caisses Populaires. In 1961 there were a total of 4,697 chartered credit unions doing business in all ten provinces of Canada. [1.]

B. BRIEF HISTORICAL OUTLINE

The type of credit organization we have defined has as its forerunner Rustico Farmer's Bank, chartered in Prince Edward Island in 1864. Alphonse Desjardins organized the first Caisse Populaire at Levis, Quebec, in 1900. He organized two others in the province before the Co-operatives Syndicates Act was passed in 1906. By 1930 there were many Caisses Populaires in Quebec. Other provinces had not yet legislated for the incorporation and supervision of Caisses Populaires, so that only a few were organized and most of them failed.

The Caisse Populaire idea spread to the United States. There it was modified to form credit unions, to meet the needs of industrial workers. The caisse populaire uses the parish as the common bond of association. To meet the needs of people who

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1. Eighteenth Annual Report, Department of Co-operation and Co-operative Development - Province of Saskatchewan - 1962.

were not part of closely knit parishes, industrial credit unions were formed, using employment as the common bond.

From modest beginnings the development of these organizations was indeed slow until the Depression of the 1930's when they commenced to attract more interest. In the Province of Nova Scotia extension workers of St. Francis Xavier University gave considerable encouragement to the organization of credit unions. The potential of credit unions began to attract the attention of employees in industrial firms. A few years later legislation was adopted in all provinces appropriate for the organization of both industry and rural community credit unions. It was not until after World War II, however, that the growth of credit unions began a noticeable upward trend in Canada and it is only during the past ten years that they have entered a phase of phenomenal growth. Credit unions today are formidable competitors of the chartered banks, trust companies and secondary lending institutions. Credit unions and caisses populaires now have more members and more assets than all other types of co-operatives put together. It has been mentioned that in 1961 there were 4,697 credit unions. They had total assets of $1.5 billion dollars. The Province of Quebec, still leading, has a third of all the credit unions in the country, half of the total membership and over 60 per cent of the assets.

Far removed from the modest objectives of mutuality expressed in their early concept, credit unions of this modern day have become a closely integrated and highly organized network of competitive financial institutions which span the nation from Newfoundland to British Columbia. Within the framework of this complex are a number of organizations which serve the co-operative movement and which are closely associated with the activities of credit unions. For purpose of clarification, therefore, this submission will deal with each of these in brief form.

C. CENTRAL CREDIT SOCIETIES

Central credit unions have been formed in all provinces. They act as depositaries for the surplus funds of their member locals and loan money to their members and in some cases to other co-operative organizations. Membership of the centrals is composed chiefly of local credit unions, but in some provinces the central includes co-operatives and is called a co-operative credit society. There were 27 central credit unions and co-operative credit societies in Canada in 1960. Some of these served a small region, others whole provinces. Their total assets were $176 million, including investments and loans to members of $130 million. Members' deposits with the centrals were $133 million.[1.]

The Canadian Co-operative Credit Society, organized in 1953, operates on the national level as a central credit organization for the co-operative movement. Its members include both provincial co-operative credit societies or central credit unions, and co-operative wholesales.

D. CREDIT UNION LEAGUES (PROVINCIAL)

The Credit Union League (Provincial) is a federation of Credit Unions which are banded together to provide themselves with services. The League organizes, promotes, protects and speaks for credit unions within its province, on a local, provincial, national and international level. In addition, League central departments exist to receive surplus funds from member Credit Unions by way of shares and deposits and to loan money to credit unions needing extra funds.

Credit union leagues maintain membership in the Provincial Co-operative Union thus enabling them to enlist the services of the union in all matters affecting both provincial and federal

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1. Report of the Superintendent of Insurance for Canada, Co-operative Credit Societies, Queen's Printer 1961.

legislation. Contact is maintained between all provincial credit union leagues across Canada and in the United States. Affiliation with the National Association of Canadian Credit Unions and The Credit Union National Association keeps the credit union leagues in close touch with credit union affairs around the world.

E. CANADIAN CO-OPERATIVE CREDIT SOCIETY LIMITED

As at December 31st, 1960, there were five co-operative credit societies that had been granted certificates under The Co-operative Credit Associations Act. These certificates are granted from the Treasury Board under the Act. The list comprises the National Society - Canadian Co-operative Credit Society Limited - and the Provincial Co-operative Credit Societies (sometimes called Central Credit Unions) which are members of the national society, namely:-

* B.C. Central Credit Union
* Co-operative Credit Society of Manitoba Limited
* Ontario Co-operative Credit Society
* Saskatchewan Co-operative Credit Society Limited

In addition to the four provincial co-operative credit societies named above, the following co-operative organizations carrying on business in two or more provinces (not being co-operative credit societies) were members of the Canadian Co-operative Credit Society Limited at the end of 1960:-

* Canadian Co-cperative Implements Limited, Winnipeg, Manitoba
* Co-operative Fire and Casualty Company, Regina, Saskatchewan
* Federated Co-operatives Limited, Saskatoon, Saskatchewan
* Interprovincial Co-operatives Limited, Winnipeg, Manitoba
* Saskatchewan Wheat Pool Limited, Regina, Saskatchewan

The primary function of the National Society is to receive deposits from its members and to lend money to its members in essentially the same way as the Provincial Co-operative Credit Societies serve the local credit unions.

In effect co-operative credit societies are a short-term and intermediate term central bank for credit unions and co-operatives. The volume of their transactions, operating results and stability will be dealt with, by table, later in this submission. In the meantime some highlights of the Saskatchewan Co-operative Credit Society for the year ended November 30, 1961, are worthy of note, if for no other reason than to indicate the extent to which capital funds are profitably interchanged within the co-operative movement itself.

One thousand, nine hundred and two loans were made by the Society during the year, to a total of $43,541,462. Of this amount, credit unions have borrowed $9,833,357; local co-operatives $9,703,764; co-operative farms $187,829; livestock feeding co-operatives $694,929. Loans were made to co-operative wholesalers on a daily balance basis of $23,121,583. Total loans in force at the end of the fiscal year were $14,274,145.

Assets of the Society increased by approximately $6 million during the fiscal year to a total of $32,815,514. The net increase in share capital during the year amounted to $3,057,900.

Total deposits during the year amounted to $363,644,187 with withdrawals of $381,987,214. This represents an increase of more than 50 per cent in total deposits during the year.

Total membership in the Society at the end of the fiscal year was 684 organizations, comprised of 269 Credit Unions and 415 other co-operatives. Every active credit union was a member of the Society using its services extensively. Almost every

consumer co-operative, many service co-operatives and practically all the larger co-operatives in the province are to be found within this membership.

Net earnings for the fiscal year are estimated in excess of $850,000.

Published figures for the fiscal year 1962 report that Saskatchewan Co-operative Credit Society had the best year in history with net earnings of $1,286,062. Assets jumped to $42,342,000 an increase of almost $10 million. The net increase in share capital was more than double the previous record increases.

It is evident from the foregoing that Credit Societies play a significant part in co-operative development. Their primary function therefore would appear to be the mobilizing of the financial resources of credit unions, consumer and producer co-operatives for maximum benefit and stimulus to all of their members.

F. THE CO-OPERATIVE TRUST COMPANY LIMITED

The Co-operative Trust Company was incorporated by a special act of the Saskatchewan legislature in 1952. Membership consists of credit unions and other co-operatives. The main functions of the Co-operative Trust Company are as follows:-

1. To act as executor and trustee of wills.
2. To make long-term mortgage loans to members of credit unions and co-operatives.
3. To provide a safe investment medium for co-operative associations, credit unions and individual co-operators.
4. To act in a trustee capacity for debentures and bond issues.
5. To receive and administer sinking funds.
6. To manage and administer business enterprises.
7. To administer the Saskatchewan Family Farm Credit Act.

Whereas the Saskatchewan Co-operative Credit Society operates primarily in the intermediate or short-term lending field and lends only to member co-operatives and credit unions, the Co-operative Trust Company is organized in part to meet the need for long-term loans to individual Credit Union members.

G. EXTENT OF CREDIT UNION OPERATIONS

In practice the operations of Credit Unions and Caisses Populaires are quite indistinguishable from those of banks, trust companies, savings and loan, and other financial institutions. Credit Unions accept regular deposits bearing interest from their members and they operate personal chequing services. They grant loans to borrowing members on which they charge a higher rate of interest than that paid to lending members on their deposits. (A member of course may be a borrower on one occasion and a lender on another.) The majority of credit unions charge interest on loans at one per cent per month on the unpaid balance, although lower rates may be charged in the case of some rural credit unions. Interest payments on deposits will vary from 3 per cent or less to 5 per cent per annum. Credit unions build reserves and invest the funds deposited by members and accumulated from earnings. Over and above loans to members, credit union investments are in the form of securities, mortgages and investment in allied co-operative organizations. The extent to which credit unions' surplus funds are put to work in their provincial Central Credit Unions and Co-operative Credit Societies has already been indicated. The profits credit unions earn from these sources are devoted to building their reserve accounts, acquiring new assets (buildings, office equipment, etc.) paying dividends to members and in some instances granting rebates on loan interest. It seems that, from the nature of these activities, credit unions and caisses populaires are in direct competition with

fully-taxed investor-owned banking and other financial institutions. That this competition is present, in fact, appears to have been acknowledged by witnesses appearing for the Ontario Credit Union League under examination by Commission Counsel Stewart in Toronto, May 21, 1963. (Reference "Royal Commission on Taxation", Transcript No. 24 at Page 1678.)

As in the case of co-operative trading organizations, credit union business has risen at a remarkable rate during recent years. Table XXXVII traces the growth of credit unions in Canada from 1940 to 1962 and Table XXXVIII shows details of the spectacular rate of growth which has occurred between the years 1955 and 1962. Striking progress is to be noted in every column with impressive gains in the asset account and loans outstanding to members. It will be observed that during this period (1955-62) membership has increased by 67 per cent and assets ($1.7 billion) have more than doubled. Loans outstanding to members exceeded $1 billion in 1962 as compared to $373 million in 1955. Total loans since inception were reported to exceed $4 billion at the end of 1961 [1]. (the most recent figure available) although it is evident from credit union activities in 1962 that this figure has been substantially increased. The scope and effect of these activities are described in the publication "International Credit Union Yearbook" 1963, at page 12, as follows:-

> "In Canada, Credit Unions increased their per cent of their country's instalment debt from 11.4 per cent at the close of 1961 to 14.5 per cent at the end of 1962. Most of this increase in Canada came at the expense of retail outlets, which held only 15.2 per cent of Canada's instalment debt at the end of 1962 as compared to 27.8 per cent on the same date in 1961."

At the same page of this publication, the Distribution of Instalment Loans by Holder - 1962 appears as follows:-

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1. "Eighteenth Annual Report, Department of Co-operation and Co-operative Development, Province of Saskatchewan, Queen's Printer, 1962, page 104.

Canada

Chartered Banks	36.9%
Sales Finance Companies.....	17.6%
Small Loan Companies	15.3%
Retail Outlets.....	15.2%
Credit Unions.....	14.5%
Quebec Savings Banks.....	0.5%
	100.0%

These figures serve to illustrate the extent to which credit unions and caisses populaires are in direct competition with fully-taxed investor-owned banking and other financial institutions.

The scale of operations of the five co-operative credit societies in Canada is shown by Tables XXXIX and XL being statements of assets and liabilities, income and expenditures for the year 1961. It will be noted that outstanding loans to members amounted to $33 million and total admitted assets were $58.5 million. Deposits by members were $32.2 million and the guarantee reserve fund exceeded $1 million. Net earnings of these societies for the year were $1,183,897.

The foregoing statistics clearly demonstrate the dimensions to which the business of Credit Unions has grown. They demonstrate a remarkable ability to build assets and considerable agility in the various methods employed to funnel large sums of money into the stream of co-operative expansion. It seems apparent that, were it not for the special exemption accorded credit unions and caisses populaires under the Act, they would be considered to earn income and would be subject to tax on their profits in the same way as is a trading co-operative.

H. THE TAX POSITION OF CREDIT UNIONS

Credit unions and caisses populaires are totally exempted from payment of income tax under Sections 62(1) and 62(1)(k) of The Income Tax Act (Schedule "B"). When the Royal Commission on Taxation of Co-operatives examined into this in 1945, the

phenomenal growth and financial inter-relationship with trading co-operatives which has since developed had not occurred and was not anticipated. It seems certain that, had the Commission known what was to come, they would never have recommended the continuance of tax exemption for credit unions as they did.

No doubt the Commission, impressed with the early rural and essentially local origins of credit unions and with the early church sponsorship of caisses populaires in Quebec, where the movement first took hold, felt that credit unions performed a desirable but limited function for their members and that their volume of business and numerical strength were of little significance to the economy. This, of course, was the situation seventeen years ago and the Commission had before it only a review of the credit union structure and activities for the years prior to 1945 when growth was indeed slow, and assets were much less than $100 million. Today the picture has changed. Credit union assets of $1.7 billion are seventeen times as great and loans granted from inception are well over the $4 billion mark. By any standard, credit unions and caisses populaires are now a recognizable factor in the economic life of this country and it is the view of the Foundation that their tax status requires reappraisal.

While it is difficult to establish the exact degree to which the striking growth of credit unions can be attributed to tax exemption, it is reasonable to state that a significant proportion of their abnormal growth rates in recent years is the direct result of their substantially unique tax position. Any organization which has no tax to pay on its profits is in an ideal situation to pyramid tax savings into capital investment and enhance its competitive power in a manner which is unjust and unfair to its fully-taxed competitors.

In discussing the tax exemption of Credit Unions another

consideration of relative importance is the loss of revenue to the Federal Treasury. It has been well established that credit unions and caisses populaires transact a sizeable volume of business each year. They realize substantial gains from these transactions and earn income from investments. To the extent that these net earnings have remained tax-free over the years a very considerable loss of revenue to the Federal Treasury has resulted. At a time when the government is so hard-pressed for budgetary revenues and required to engage in deficit financing for eight of the last nine years, it is difficult to understand its failure to apply at least some measure of taxation on the profits of credit unions bolstered as they are with assets of $1.7 billion.

1. Why Credit Unions Should No Longer be Tax Exempt

In justification of their tax-free status, credit union officials claim they are not in competition with other businesses and that they exist to encourage savings among their members and to provide low-cost loans to many people not otherwise eligible for such loans. The result of these activities, they say, is to foster the education of members in matters of thrift and generate the circulation of money to the economic betterment of the community. While such considerations may well have motivated the establishment of the original credit unions, and particularly the caisses populaires in Quebec, it is clear from the factual information set out above that credit unions and caisses populaires today are very definitely in competition with chartered banks, trust companies, savings and loan and finance companies on a fully commercial and money making basis. The services of credit unions do not differ substantially from those rendered by ordinary financial institutions and in many respects they are identical. In the case of low-cost

loans to individuals, it will be noted that the chartered banks are in this field as are other types of lending organizations providing personal loans at moderate rates of interest. In the taking of security it is doubtful indeed that these ordinary institutions are any more rigid than the local credit union in their collateral or security requirements. The effective rates of interest charged on loans by credit unions are similar and, in some instances, higher than those charged by the banks. In any event interest charges on personal loans are regulated by the Small Loans Act and scrutinized by Parliament with considerable regularity.

Even in the case of small businesses, any loans which may be granted by credit unions or caisses populaires are similar to those available through ordinary channels. Examination of the recent annual reports of the chartered banks of Canada, for instance, will disclose the extent to which loans to small businessmen have increased since 1957. It should also be borne in mind that government sponsored loans for small business have been available since January 1961. These loans are granted through the chartered banks of Canada at less-than-average rates of interest and provide a completely adequate source of medium-term borrowing for small business improvement and expansion.

It would appear, therefore, that the borrowing requirements of individuals and small businesses, whether members of credit unions or not, are well-satisfied by ordinary fully-taxed banking and financial institutions who render specialized and efficient service to the Canadian public.

As at July 31st, 1962, there were 5,288 branches, including sub-branches and sub-agencies of the Canadian

chartered banks [1] spread all across Canada serving or within reach of every organized community in the nation. These figures, of course, exclude the considerable number of other financial institutions located in the urban and rural areas to meet the financial and investment requirements of the Canadian people. All of these institutions render important service to the community and contribute to the economic betterment. None of them seek nor do they expect preferred Income Tax Treatment because of this fact. It is quite illogical therefore that credit unions, offering duplicate services in competition with these businesses, should enjoy complete freedom from Income Tax simply because of the manner in which they were originally constituted.

The argument that credit unions are deserving of preferential tax treatment because they encourage the circulation of money to the economic betterment of the community is equally applicable to their tax-paying competitors. Certainly the benefits accruing to the community from the operations of a credit union are less than those arising from the introduction of a primary industry. The latter does not enjoy freedom from taxation. In this respect figures compiled by the Trade and Industry Branch of the Planning and Development Department, Province of Ontario, are revealing.

> "The material benefits to be derived from the establishment of an industrial plant in almost any locality is very rarely properly assessed by the members of that community. Let us consider the possible benefits to be derived from the location of a plant having approximately 170 employees, which is a general figure not built around any specific plant.

---

1. Canadian Bankers Association.

1. Supports 120 occupied homes, housing approximately 500 people.

2. Affords a livelihood for approximately 25-30 professional men.

3. Makes possible the purchase and operation of approximately 125-135 automobiles and services for the community.

4. Supports approximately 30-35 smaller retail sales outlets and annual sales of nearly half a million dollars.

5. In the aggregate, support for 7,000 farm acres whose products are consumed by the plant employees, their families, and the families of those tradesmen and staff who are sustained by the industry. Each person gainfully employed in production - directly or indirectly - gives employment for an additional 1.3 persons, and supports another four people.

6. Another way of expressing what has been stated above and which is typical of practically any development is that 100 new employees will, in due course, add $855,000.00 to manufacturing production in the area; they would contribute $462,000.00 in purchases by industry, and add $2,850,000.00 to the taxable municipal assessment. It would also mean an increase of $100,000.00 in taxes paid by corporations annually, add 135 new employees in other fields, contribute 162 new housing units, add $670,000.00 in personal income taxes, $400,000.00 additional revenue to local retail stores, as well as resulting in three new retail outlets being established."

Another contention of credit union spokesmen is that, if credit unions were made subject to income tax, the tax revenue potential would be negligible as credit unions could easily avoid the tax. They reason that a credit union is in an ideal position to operate on a strict cost basis by paying a fixed, pre-determined interest rate on members' deposits, which interest would be a charge against income, and by reducing the interest rate charged on loans to members. Operating expenses, they state, can also be increased by the replacement of voluntary workers with paid personnel. As the result of all this, they contend, earnings or profits would be virtually eliminated. This argument takes the same form as that of the trading co-operatives who suggest they could resort to the

"Pricing Out" system rather than pay Income Tax, as to which see below. The ordinary business competitors of credit unions would of course meet this form of competition for as long as it might last. It is doubtful, however, that credit unions would find it practical or economically sound to adopt and maintain a policy of "service at cost" for any appreciable length of time. Not only would they lose their access to tax-free profits from investment income but they would no longer be able to generate the reserves necessary for financial stability from their operations. These disadvantages would be severe, particularly at the local credit union level.

Credit Union partisans argue that the dividends paid to members are taxable in the hands of recipients without benefit of the 20% tax credit, and that therefore the tax contribution on credit union profits is about the same as the combined tax liability of a corporation and its dividends in the hands of shareholders. This argument of course is no more valid in the case of credit unions than it is in the case of co-operatives. It has been refuted elsewhere in this submission with conclusive and factual illustrations and requires no further comment at this time, other than to note that it must be an almost impossible task for the Department of National Revenue to track down these dividends upon which the recipients are liable for tax if they are in a taxable bracket, which would be rare and/or nominal in the case of the "small" people for whose benefit the credit unions are supposed to operate. Furthermore it is worth emphasizing that the 20 per cent tax credit does not apply to interest received on deposits in banks or trust companies.

In view of the foregoing it is the considered opinion of the Foundation that there is no reasonable justification for continuing the tax-exempt status of credit unions and

caisses populaires. These organizations are successfully competing in the field of banking and finance and have a demonstrated ability to earn profits and increase assets. They are no longer in need of tax concessions for survival and growth. The functions of modern day credit unions are essentially the same as those of their fully-taxed investor-owned competitors. Credit unions and caisses populaires are quite capable of fulfilling their role in our society with tax equality, in just the same manner and to just the same extent as other organizations have been doing for years.

XIV. CO-OPERATIVES AND CREDIT UNIONS BENEFIT LIKE OTHERS FROM THE APPLICATION OF TAX REVENUES

As a matter of policy every corporation, co-operative or otherwise, doing business in this country should be expected to bear its share of the tax burden and should not oppose tax equality. This is a time when Government revenue needs are great. This is especially true when we consider the high cost of running the country, and the extent to which the cost of social services has risen since World War II to account for a large and growing share of the national budget.

Table XLI sets out a schedule of total Government expenditures expressed as a percentage of gross national product for selected calendar years, 1929 to 1961. It will be noted that in the year 1961 Federal Government expenditures, including inter-governmental transfers, amounted to 19.3 per cent of the gross national product, compared to 8.2 per cent in 1939. Expenditures by all governments (Federal, Provincial and Municipal) amounted in 1961 to 32.3 per cent of the gross national product.

This is not a time to continue out-moded historical exemptions which have long lost whatever validity they may once have had. No one

should want nor should they expect such exemptions and the government should not continue them.

Co-operatives do not object to paying property and business taxes at the municipal level. They pay provincial sales and gasoline taxes, but they have escaped almost all the burden of the taxes on corporate profits recently imposed by some provinces to finance hospitalization schemes, etc. The purposes to which these tax revenues are put are of no more importance than those to which federal tax revenues are devoted.

In Tables XLII and XLIII budgetary revenues and expenditures are shown for the five-year period ending March 31, 1963. The 1963 expenditure figures cover only the main estimates (revised October 18, 1962 and reduced by $228 million) and are therefore not strictly comparable with the preceding year's figures. From 1959 to 1963 both revenues and expenditures are expected to haverisen by approximately 22 per cent based on the calculation of the budget speech forecast of expenditures for 1963. Highlights of the expenditure table indicate that the outlays for the Department of Labour are more than double for the period since 1959, owing to the huge increases in spending on vocational and technical education. The next largest increase to be observed is by the Department of National Health and Welfare with an anticipated 26 per cent rise due to the introduction of hospital insurance. Defence spending, even with the cut-back of $88 million announced in October, 1962, is expected to have increased by 11 per cent and public debt charges by 22 per cent. The Government's contribution to the superannuation account is estimated to be up by 33 per cent, reflecting the rise in Government employees and payrolls.

The accompanying Charts IV and V (Page 106) show the percentage of budgetary revenues expected to come from each source in 1962-63 and how the expenditures detailed in the main estimates for the current year break down between departments and activities. These charts are based

Chart IV

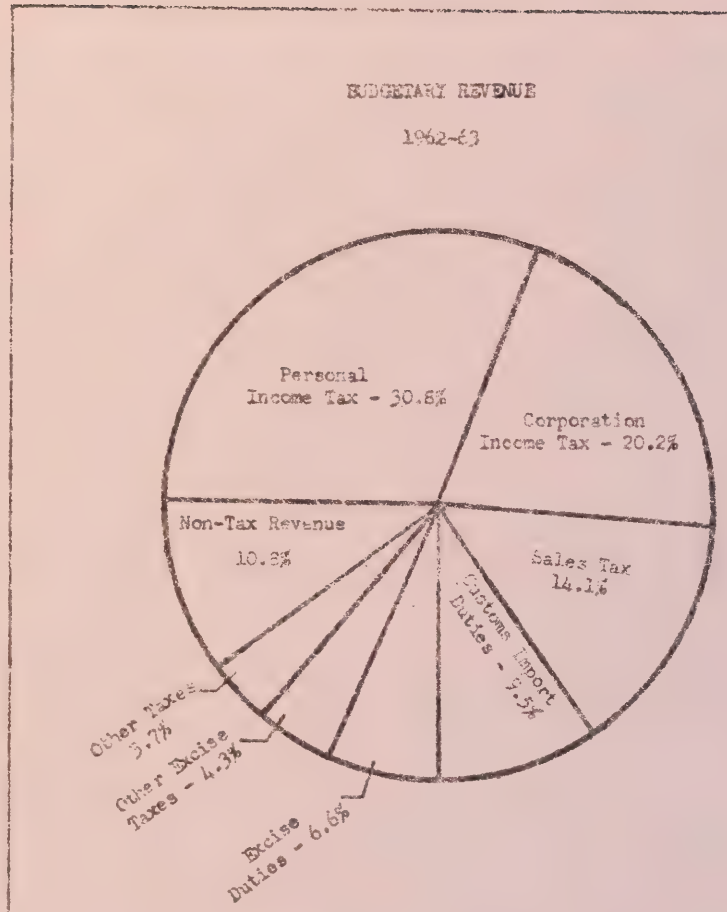
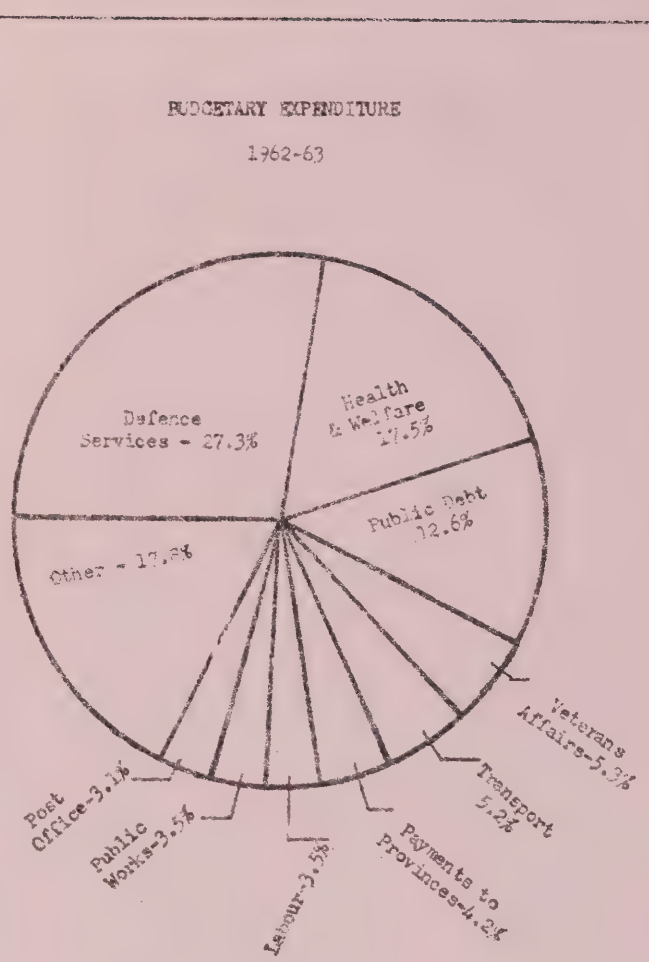


Chart V



Source: "The National Finances", 1962-1963. Published by Canadian Tax Foundation.

on the 1962-63 figures in the five-year tables previously referred to. These charts indicate that on the revenue side personal income tax provides nearly 31 per cent of the total, with corporation income tax next in importance at 20 per cent. Sales tax accounts for 14 per cent of total revenue. Non tax sources will yield nearly 11 per cent, customs duties about 9 per cent and excise duties on liquor and tobacco nearly 7 per cent. The balance of 8 per cent will be made up of non-resident income tax, estate tax and miscellaneous excise taxes.

The expenditure chart shows that defence activities take over one-quarter of budgetary outlays (27 per cent in 1962-63). The Department of National Health and Welfare will claim close to 18 per cent and public debt charges almost 13 per cent. Payments to the provinces will require about 4 per cent of Federal budgetary expenditures under the new fiscal arrangements compared with 8 per cent in the previous year.

It should be noted that the above mentioned figures do not include either the revenues or the expenditures of the old age security fund which is maintained as a separate account. Receipts of $672 million are expected from the old age security taxes in the current year and pension payments, reflecting the increase in rates granted in 1962, are estimated at $736 million, creating a deficit of $64 million in this account. This is additional to the budgetary deficit.

The revenues derived from income taxation (personal and corporation) therefore account for more than half of Federal Government revenues used to defray the costs of running this country at both the federal and provincial levels. The services of Government Departments, the armed forces, government-financed highways, subsidized transportation services, hospital insurance, family allowances, veterans pensions, old age assistance, unemployment assistance, etc. are of as much value and assistance to co-operatives and credit unions and their employees and members as they are to ordinary corporations, their employees, shareholders and customers and indeed all ordinary taxpayers. There seems no good reason for excusing co-operatives and credit unions from what seems a natural obligation to pay their fair share of the benefits

they enjoy. It is quite illogical that these organizations fail to pay their fair share of Federal Government costs while they accept most of their obligations at the less costly local level. If we are to have a tax system with integrity then the tax burden should be shared by all in proportion to their ability to pay. Co-operatives and credit unions should do their share to bear the burden of taxation in relation to their financial capacity to contribute. They are not dependent upon their tax privileges to exist and prosper. They can grow and prosper under tax equality to the same extent as their fully-taxed competitors. They can still perform their function adequately without the unfair tax advantages they enjoy at the present time.

XV. THE "PRICING OUT" PROBLEM

It has been suggested that if co-operatives and credit unions were not allowed to deduct the amounts paid in patronage dividends from profits they would respond by lowering prices, would pass on their "price adjustments" in this manner and in the result both the National Treasury and co-operatives' competitors, through price competition, would be losers.

This proposition is clearly not realistic. First, no business can hope to remain stable and viable if it does not, in its pricing policies, make a reasonable provision for unforeseen expenditures and new developments. Second, co-operatives are anxious to expand and as in the case of any business, the most easily obtainable source of funds to finance expansion lies in retained earnings. Without profits co-operatives would be hobbled in their expansion plans. Third, professional managers of co-operatives or any other type of business would have no incentive to operate their businesses on a non-profit basis. To attempt to do so would not only make their jobs much more difficult, but would limit their horizons and diminish their role in planning for the future.

It is of course possible that amendment of the present tax law in the manner the Foundation suggests, might precipitate a round of co-operative price cutting. It would not be long however, before co-operatives found that even they had to set their prices at levels which assured them some cushion against future hazards of the business world. Moreover, disallowance of patronage dividends as a tax deduction would conclusively end arguments as to what portion of these dividends truly represented price reduction and what portion represented return on capital. The co-operative would be obliged to make the distinction itself when it set its prices. Finally, it is quite certain that ordinary business can take care of itself and is quite prepared to meet whatever challenge is involved here.

XVI. THE INCOME TAX POSITION OF RECIPIENTS OF PATRONAGE DIVIDENDS AND DIVIDENDS OF COMPANIES

By Section 75(6) of the Income Tax Act patronage dividends (other than patronage dividends paid in respect of consumer goods or services) received by a taxpayer are to be treated as the income of the taxpayer. This is so whether or not the dividend is paid in cash or by means of the issuance of a certificate of indebtedness or a share. In the case of patronage dividends paid in respect of consumer goods and services no income tax is paid by the recipient.

Dividends on the shares of ordinary corporations are, of course, taxable as the income of the recipients subject to the 20 per cent credit under Section 38.

The rationale for this varied treatment appears to be that patronage dividends paid by consumer co-operatives were regarded as price reductions; the patronage dividends paid by non-consumer co-operatives were regarded as increases in the price of goods marketed or savings in the cost of doing business; the dividends of corporations were regarded as the profits they are.

In point of fact, as has been mentioned both the patronage dividends paid by consumer co-operatives and by all other non-agency co-operatives, whether marketing or otherwise, represent the profits earned by co-operative assets. It seems only logical therefore, that they should receive the same treatment as the distributed profits of corporations. If this view is accepted then these types of patronage dividends should be taxable in the hands of the recipient and should be accorded whatever allowance is available to recipients of ordinary corporate dividends.

XVII. CONCLUSION AND RECOMMENDATIONS

In the light of the foregoing, the Foundation recommends:-

1. That net profits be taxed prior to deduction of patronage dividends;
2. That the privilege now granted new co-operatives of being excused from taxation during the first three years of their existence be abolished;
3. That the exemption from taxation now granted credit unions and caisses popularies be abolished and that they be required to pay tax on their net profits prior to deduction of patronage dividends; and
4. That patronage dividends of non-agency co-operatives, both consumer and non-consumer, be accorded in the hands of recipients the same treatment as the dividends paid to shareholders of corporations.

ALL OF WHICH IS REPSECTFULLY SUBMITTED,

David A. Gilbert

President,
THE EQUITABLE INCOME TAX FOUNDATION

Hazen Hansard

Hazen Hansard, Q.C.
of Counsel

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TABLE I

STATISTICAL SUMMARY OF MARKETING AND MERCHANDISING CO-OPERATIVES IN CANADA
Selected Post-War Years

Years Ended July 31	Number of Associations Reporting	Number of Shareholders or Members a/	Sales of Farm Products	Sales of Supplies	Total Business Including "Other" Revenues	Total Assets	Liabilities to the Public	Liabilities to the Members b/	Net Worth c/	Members' Equity d/
		(000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)	($000)
1947	2,095	982	578,638	127,001	712,583	168,195	71,404	45,995	50,796	96,792
1957	2,022	1,363	825,008	283,730	1,126,209	481,912	262,081	81,204	138,627	219,831
1958	2,002	1,333	895,327	296,492	1,208,455	505,023	283,176	77,175	144,672	221,847
1959	1,982	1,290	963,330	332,943	1,315,167	560,148	314,686	79,528	165,933	245,461
1960	1,934	1,318	972,333	365,744	1,358,625	601,821	331,122	87,567	183,132	270,699
1961	1,906	1,323	1,017,750	388,022	1,424,308	617,808	333,011	86,695	198,102	284,797

a/ Includes some duplication since the same shareholders or members may be included in two or more co-operatives.

b/ Loans from members plus surplus allocated to members.

c/ Share capital and membership fees plus unallocated reserves and undivided surplus.

d/ Total of Items b/ and c/

Source: Table constructed from data gathered by Economics Division, Canada Department of Agriculture, Ottawa, Canada, and published in "Co-operation in Canada", selected issues.

TABLE II

VALUE OF FARM PRODUCTS MARKETED BY CO-OPERATIVES IN CANADA BY PROVINCES
For The Crop Year Ended July 31, 1961

Province	Type of Associations	Dairy Products Sales	Fruits & Vegetables Sales	Grains & Seeds Sales	Live-stock Sales	Eggs & Poultry Sales	Honey Sales	Miscellaneous[a/] Sales	Total Sales
		- thousand dollars -							
British Columbia	M. & P.	34,774	17,485	4	6,081	691	-	307	59,342
Alberta	M. & P.	30,810	341	80,520	48,922	7,340	1,067	8	169,008
	Others[c/]			18					18
Saskatchewan	M. & P.	24,883	31	190,822	67,833	5,528	511	154	289,762
Manitoba	M. & P.	10,250	355	66,289	21,474	5,646	1,044	115	105,173
Ontario	M. & P.	48,515	4,622	10,607	101,711	5,944	816	831	173,046
	Others[c/]		318						318
Quebec	M. & P.	69,237	4,200	519	21,403	16,845	-	7,722	119,976
New Brunswick	M. & P.	6,461	822	127	1,218	707	-	49	9,384
Nova Scotia	M. & P.	2,533	3,188	5	1,710	1,387	30	65	8,918
	Others[c/]		17		15				32
Prince Edward Island	M. & P.	1,087	2,050	-	5	167	-	-	3,309
Newfoundland	M. & P.	-	9	-	20	-	-	21	50
Interprovincial	M. & P.	-	-	78,297	-	-	-	1,485	79,782
TOTAL 1961		228,550	33,438	427,208	270,392	44,255	3,468	10,807	1,018,118
TOTAL 1960 b/		219,533	40,950	377,720	276,792	42,026	2,968	12,343	972,333

a/ Includes maple and maple products, tobacco, wool, fur, lumber, flax, hay and hides.

b/ Revised

c/ Service and Fishermen Associations

Source: Economics Division, Canada Department of Agriculture, Ottawa, Canada.
Published in "Co-operation in Canada" 1961, p. 8.

TABLE III

FARM PRODUCTS MARKETED BY CO-OPERATIVE BUSINESS ORGANIZATIONS
IN CANADA, REPORTED FOR CROP YEARS ENDED
JULY 31, 1960 and 1961

	1960		1961			
	Associations [a]	Value	Marketing & Purchasing Associations [a]	Value	Other Associations [a]	Value
	- number -	$000	- number -	$000	- number -	$000
Dairy Products	406 [b]	219,533 [b]	394	228,550	-	-
Fruits and Vegetables	129	40,950	121	33,103	3	335
Grains and Seeds	107 [b]	377,720 [b]	89	427,190	1	18
Livestock and Livestock Products	337	276,792	356	270,377	1	15
Eggs and Poultry	164	42,026	155	44,255	-	-
Honey	8	2,968	9	3,468	-	-
Tobacco	3	1,859	3	2,015	-	-
Wool	13	1,553	15	1,460	-	-
Fur	5	740	5	448	-	-
Lumber and Wood	44	3,745	38	3,027	-	-
Miscellaneous [b]	66 [c]	4,447 [c]	72	3,857	-	-
TOTAL	971 [b]	972,333 [b]	945	1,017,750	5	368

a/ Duplication exists in this column as some associations market more than one product.

b/ Revised

c/ Includes maple products, hay, flax and others.

Source: Economics Division, Canada Department of Agriculture, " Co-operation in Canada", 1961, p. 7.

TABLE IV

GROWTH IN MARKETING AND PURCHASING ACTIVITIES REPORTED BY CO-OPERATIVES IN CANADA, 1932-1961

Crop Year Ended	Associations Reporting	Marketing	Purchasing	Total Business including Other Revenue 1)
	- number -	- - - thousand dollars - - -		
1932	795	134,611	10,665	145,303
1937	1,024	157,031	16,363	173,927
1938	1,217	134,493	20,091	155,080
1939	1,332	180,747	20,400	201,659
1940	1,151	214,293	21,129	236,322
1941	1,395	215,030	24,895	242,158
1942	1,722	214,762	42,327	257,090
1943	1,650	295,499	55,689	352,785
1944	1,792	459,798	65,508	527,855
1945	1,824	500,481	81,360	585,650
1946	1,953	454,564	95,603	554,329
1947	2,095	578,638	127,001	712,583
1948	2,249	616,347	157,874	780,085
1949	2,378	783,293	191,804	982,232
1950	2,495	803,639	206,082	1,015,264
1951	2,348	769,264	209,985	988,459
1952	2,194	840,113	234,848	1,112,469
1953	2,221	874,698	245,629	1,147,590
1954	2,086	735,780	234,583	989,066
1955	1,949	704,047	228,446	941,377
1956	2,041	823,389	258,751	1,092,516
1957	2,022	817,601	283,730	1,116,002
1958	2,002	898,168	296,743	1,209,805
1959	1,982	963,330	332,943	1,315,167
1960 a/	1,934	972,333	365,744	1,358,625
1961	1,906	1,017,750	388,022	1,424,308

a/ Revised.
1) Other revenue includes patronage rebates from co-operative wholesales, interest on investments, rental income, etc.
Source: Economics Division, Canada Department of Agriculture, "Co-operation in Canada" 1961, p.4.

TABLE V

CANADIAN FARM CASH INCOME FROM THE SALE OF SELECTED FARM PRODUCTS
CLASSIFIED BY PRODUCTS MARKETED, FOR SELECTED POST-WAR YEARS
(In Millions of Dollars)

Years Ended July 31	1947	1957	1958	1959	1960	1961	1962 d/
Wheat a/	419	459	501	509	515	611	683
Total Grains, b/ Seeds and Hay	650	690	656	683	685	731	863
Other Crops	-	-	101	94	100	110	104
Dairy Products	326	460	496	514	518	534	539
Fruits and Vegetables	139	147	157	156	184	166	167
Livestock	496	784	961	935	880	991	1,050
Eggs and Poultry	172	277	298	278	271	283	295
Tobacco	49	77	84	90	96	103	95
Forest Products	61	53	42	39	37	35	34
Miscellaneous	74	87	-	-	-	-	-
TOTAL CASH INCOME FROM FARM PRODUCTS c/	1,967	2,575	2,795	2,789	2,771	2,953	3,147

a/ Includes participation payments and adjustments relating to crops of preceding years.

b/ Includes payments listed under "Wheat".

c/ Represents "Selected" and all other farm products; excludes "supplementary" farm payments made under the provisions of the Prairie Farm Assistance Act, Western Grain Producers' Acreage Payment Plan, etc.

d/ Preliminary figures.

Source: Compiled from Dominion Bureau of Statistics "Cash Income from the Sale of Farm Products", selected years.

TABLE VI

SALES VOLUME OF MARKETING CO-OPERATIVES IN CANADA
CLASSIFIED BY COMMODITIES, FOR SELECTED POST-WAR YEARS
(In Thousands of Dollars)

Years Ended July 31	1947	1957	1958	1959	1960	1961
Marketing Co-operatives:						
Dairy Products	83,234	166,730	185,989	216,447	219,533	228,550
Fruits and Vegetables	44,206	29,746	42,917	41,682	40,950	33,103
Grain and Seed	283,262	377,017	368,833	366,589	377,720	427,190
Livestock	91,593	199,849	248,781	287,204	276,792	270,377
Eggs and Poultry	26,035	38,711	33,099	38,828	42,026	44,255
Honey	518	2,304	2,475	2,550	2,968	3,468
Maple Products	1,116	3,044	2,543	2,747	3,635	-
Tobacco	43,748	1,679	4,519	1,946	1,859	2,015
Wool	2,094	3,828	1,767	1,270	1,553	1,460
Fur	1,967	485	581	608	740	448
Lumber and Wood	121	1,184	3,238	2,875	3,745	3,027
Miscellaneous	744	431	585	584	812	3,857[a/]
TOTAL MARKETING	578,638	825,008	895,327	963,330	972,333	1,017,750

a/ Includes Maple Products, Hay, Flax and others.

Source: Table constructed from data gathered by Economics Division, Department of Agriculture, Ottawa, Canada, and published in "Co-operation in Canada", selected issues.

TABLE VII

COMPARATIVE MARKETING SALES IN RELATION TO CANADIAN CASH INCOME FROM THE SALE OF FARM PRODUCTS
Selected Post-War Years

YEAR	CO-OPERATIVE MARKETING SALES b/ (All)	CO-OPERATIVE MARKETING SALES b/ (All Except Grains)	CANADIAN FARM CASH INCOME c/ (All)	CANADIAN FARM CASH INCOME c/ (All Except Grains)	CO-OPERATIVE MARKETING SALES / CANADIAN FARM CASH INCOME (All)	CO-OPERATIVE MARKETING SALES / CANADIAN FARM CASH INCOME (All Except Grains)
1947	$ 579	$ 296	1,967	1,317	29%	23%
1957	825	448	2,575	1,885	32%	23%
1958	895	526	2,795	2,139	32%	25%
1959	963	596	2,789	2,106	33%	28%
1960	972	594	2,771	2,086	35%	28%
1961	1,018	591	2,953	2,222	35%	27%

a/ The co-operative marketing data relate to crop years ending July 31 and are matched with Farm Cash Income data for the calendar year in which the crop year ends.

b/ Millions of dollars

c/ Millions of dollars.

Source: Constructed from Tables V and VI.

TABLE VIII

CO-OPERATIVE MARKETING SALES IN RELATION TO CANADIAN CASH INCOME FROM THE SALE OF FARM PRODUCTS CLASSIFIED BY MAIN PRODUCT GROUPS, FOR SELECTED POST-WAR YEARS a/ b/

	DAIRY PRODUCTS			FRUITS & VEGETABLES			GRAINS AND SEED			LIVESTOCK			EGGS AND POULTRY			TOBACCO		
YEAR c/	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%
1947	83	326	25%	44	139	32%	283	650	44%	92	496	19%	26	172	15%	44	49	89%
1957	167	460	36%	30	147	20%	377	690	55%	200	784	25%	39	277	11%	2	77	3%
1958	186	496	37%	43	157	27%	369	656	56%	249	961	26%	33	298	11%	5	84	6%
1959	216	514	42%	42	156	27%	367	683	54%	287	935	31%	39	278	14%	2	90	2%
1960	220	518	42%	41	184	22%	378	685	55%	277	880	31%	42	271	15%	2	96	2%
1961	229	534	43%	33	166	20%	427	731	58%	270 d/	991	27%	44	283	16%	2	103	2%

a/ All "Co-op Sales" and "Farm Cash Income" figures are in millions of dollars.

b/ All "percentage figures relate to the following ratio: $\frac{\text{Co-op Sales of Commodity "X"}}{\text{Farm Cash Income from Sale of Commodity "X"}}$

c/ The co-operating marketing data relate to co-op years ending July 31, and are matched with Farm Cash Income data for the calendar year in which the crop year ends.

d/ One of the larger Co-operatives in Ontario accounted for most of the 1961 decline in Livestock sales in the Province and in Canada as a whole.

Source: Constructed from Tables V and VI.

TABLE IX

SALES VOLUME OF MARKETING CO-OPERATIVES IN CANADA
CLASSIFIED BY PROVINCES, FOR SELECTED POST-WAR YEARS
(In Thousands of Dollars)

Years Ended July 31	1947	1957	1958	1959	1960	1961
MARKETING CO-OPERATIVES:						
British Columbia	37,041	57,858	66,727	65,189	65,142	59,342
Alberta	116,530	143,852	148,789	174,026	162,568	169,008
Saskatchewan	172,545	224,422	263,698	259,647	260,225	289,762
Manitoba	51,765	74,275	77,606	81,403	88,452	105,173
Ontario	92,509	137,675	160,653	185,499	184,280	173,046
Quebec	50,493	84,304	93,323	108,077	115,713	119,976
New Brunswick	2,543	7,911	8,708	9,033	9,327	9,384
Nova Scotia	8,549	6,280	6,934	6,371	7,395	8,918
Prince Edward Island	2,425	1,640	1,550	2,278	3,558	3,309
Newfoundland	-	6	9	25	2	50
Interprovincial	44,238	86,785	67,330	71,782	75,671	79,782
CANADA	578,638	825,008	895,327	963,330	972,333	1,017,750

Source: Table constructed from data gathered by Economics Division, Department of Agriculture, Ottawa, Canada, and published in "Co-operation in Canada", selected issues.

TABLE X

CANADIAN FARM CASH INCOME FROM THE SALE OF SELECTED FARM PRODUCTS
CLASSIFIED BY PROVINCES, FOR SELECTED POST-WAR YEARS a/
(In Millions of Dollars)

Calendar Years	1947	1957	1958	1959	1960	1961
British Columbia	94	116	122	123	128	138
Alberta	340	436	484	480	471	533
Saskatchewan	428	538	574	564	550	600
Manitoba	182	200	223	230	222	243
Ontario	545	790	855	857	868	890
Quebec	287	384	421	420	410	437
New Brunswick	40	44	46	44	50	42
Nova Scotia	33	42	42	43	43	46
Prince Edward Island	18	25	28	28	29	24
CANADA b/	1,967	2,575	2,795	2,789	2,771	2,953

a/ Excludes "Supplementary" payments, See Table V, Note c/.

b/ Excludes Newfoundland

Source: Compiled from Dominion Bureau of Statistics "Cash Income From The Sale of Farm Products", Selected Years.

TABLE XI

CO-OPERATIVE MARKETING SALES IN RELATION TO CANADIAN CASH INCOME FROM THE SALE OF FARM PRODUCTS CLASSIFIED BY PROVINCES, FOR SELECTED POST-WAR YEARS a/ b/

YEAR c/	BRITISH COLUMBIA			ALBERTA			SASKATCHEWAN			MANITOBA			ONTARIO		
	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%
1947	$ 37	$ 94	39%	$117	$ 340	34%	$173	$ 428	40%	$ 52	$ 182	28%	$ 93	$ 545	17%
1952	49	104	47%	182	505	36%	262	711	37%	77	250	31%	95	737	13%
1957	58	116	50%	144	436	33%	224	538	42%	74	200	37%	138	790	18%
1958	67	122	55%	149	484	31%	264	574	46%	78	223	35%	161	855	19%
1959	65	123	53%	174	480	36%	260	584	46%	81	230	35%	185	857	22%
1960	65	128	51%	163	471	35%	260	550	47%	88	222	39%	184	868	21%
1961	59	138	43%	169	533	32%	290	600	48%	105	243	43%	173	890	19%

YEAR c/	QUEBEC			NEW BRUNSWICK			NOVA SCOTIA			PRINCE EDWARD ISLAND			CANADA d/ e/		
	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%	Co-op Sales	Farm Cash Income	%
1947	$ 50	$ 287	18%	$ 3	$ 40	8%	$ 9	$ 33	12%	$ 2	$ 18	11%	$579	$1,967	29%
1952	68	417	16%	6	53	11%	7	40	18%	3	32	9%	840	2,849	29%
1957	84	384	22%	8	44	18%	6	42	14%	2	25	8%	825	2,575	32%
1958	93	421	22%	9	46	20%	7	42	17%	2	28	7%	895	2,795	32%
1959	108	420	26%	9	44	20%	6	43	14%	2	28	7%	963	2,789	33%
1960	116	410	28%	9	50	19%	7	43	16%	4	29	14%	972	2,771	35%
1961	120	437	28%	9	42	21%	9	46	20%	3	24	13%	1,018	2,953	35%

a/ All "Co-op Sales" and "Farm Cash Income" figures are in millions of dollars.

b/ All "percentage" figures relate to the following ratio: $\frac{\text{Co-op Sales in Province "X"}}{\text{Farm Cash Income from Sales in Province "X"}}$

c/ The co-operative marketing data relate to crop years ending July 31st and are matched with Farm Cash Income data for the calendar years in which the crop year ends. d/ Figures for Canada include sales by "interprovincial" co-operatives, which are not allocated by Provinces. e/ Figures for Canada include Co-op Sales for Newfoundland but Farm Cash Income figures are not available. Source: Constructed from Tables IX and X.

TABLE XII

VALUE OF SUPPLIES AND MERCHANDISE SOLD THROUGH CO-OPERATIVES IN CANADA
BY PROVINCES, FOR THE CROP YEAR ENDED JULY 31, 1961

(In Thousands of Dollars)

PROVINCE	Association	Food Products	Clothing and Home Furnishings	Hardware	Petroleum Products and Auto Accessories	Feed Fertilizer and Spray Materials	Machinery and Equipment	Coal, Wood and Building Materials	Miscel-laneous[a]	TOTAL
British Columbia	P. & M. Others [c]	10,364 1,404	2,097 236	2,104 354	1,865 191	11,383 1	43 25	380 10	233 5	28,469 2,226
Alberta	P. & M. Others [c]	11,390 70	1,873 -	2,285 -	12,721 -	2,391 99	1,056 1	2,892 -	275 52	34,883 222
Saskatchewan	P. & M. Others [c]	26,213 137	3,600 -	8,316 -	29,156 -	2,041 -	1,301 -	9,311 -	2,812 -	82,750 137
Manitoba	P. & M. Others [c]	8,348 106	912 -	2,476 -	10,004 -	2,234 -	562 -	3,823 -	761 3	29,120 109
Ontario	P. & M. Others [c]	11,345 31	688 -	4,863 -	9,970 311	39,085 226	1,407 31	3,518 -	3,004 97	73,880 696
Quebec	P. & M. Others [c]	20,239 -	1,203 -	4,317 1	4,682 195	50,748 -	4,719 -	1,734 304	2,408 10	90,050 510
New Brunswick	P. & M. Others [c]	3,427 44	495 2	616 4	866 6	3,281 4	68 -	526 -	303 -	9,581 60
Nova Scotia	P & M. Others [c]	7,340 125	597 1	773 -	525 -	5,734 9	240 -	419 -	215 -	15,843 135
Pr. Edward Island	P. & M.	3,423	68	306	142	955	-	38	23	4,955
Newfoundland	P. & M.	3,960	865	-	55	180	11	95	105	5,271
Interprovincial	P. & M.	-	27	-	-	4,071	6,486	1,208	1,428	13,220
TOTAL 1961 TOTAL 1960 [b]		107,966 102,368	12,664 12,229	26,415 25,660	70,689 63,957	122,442 116,406	15,950 12,724	24,258 23,705	11,734 8,695	392,117 365,744

[a] Mainly smallwares, electrical equipment and supplies. [b] Revised. [c] Service and Fishermen Associations

Source: Economics Division, Canada Department of Agriculture, Ottawa, Canada, Published in "Co-operation in Canada", 1961, p. 9.

TABLE XIII

VALUE OF SUPPLIES AND MERCHANDISE SOLD THROUGH CO-OPERATIVES IN CANADA
BY PROVINCES, FOR THE CROP YEAR ENDED JULY 31st, 1960

(In Thousands of Dollars)

PROVINCE	Food Products	Clothing and Home Furnishings	Hardware	Petroleum Products and Auto Accessories	Feed Fertilizer and Spray Materials	Machinery and Equipment	Coal, Wood and Building Materials	Miscel-laneous[a/]	TOTAL
British Columbia	11,374	2,199	2,698	2,028	10,552	77	275	244	29,446
Alberta	10,406	1,766	2,276	11,253	1,924	478	2,280	143	30,526
Saskatchewan	22,006	3,371	8,081	27,829	1,864	714	8,396	2,030	74,291
Manitoba	7,454	712	2,409	8,766	2,035	427	3,832	714	26,349
Ontario	10,570	361	4,029	9,723	35,349	1,425	3,196	2,378	67,031
Quebec	20,944	1,831	4,156	2,296	51,146	4,937	3,061	1,388	89,760
New Brunswick	3,410	354	675	807	3,236	44	426	113	9,066
Nova Scotia	8,191	737	758	586	5,675	52	288	290	16,577
Pr. Edward Island	2,766	41	261	134	749	-	11	58	4,019
Newfoundland	3,710	825	-	25	332	12	150	20	5,074
Interprovincial	-	32	-	-	3,477	4,517	1,488	1,257	10,771
TOTAL 1960[b/]	100,831	12,229	25,343	63,447	116,339	12,683	23,403	8,635	362,910
TOTAL 1959	94,463	11,596	21,516	57,915	109,636	10,763	20,032	7,913	333,834

a/ Mainly Smallwares, Electrical Equipment and Supplies

b/ Revised

Source: Economics Division, Canada Department of Agriculture, Ottawa, Canada
published in "Co-operation in Canada", 1960, p. 11.

TABLE XIV

SALES VOLUME OF MERCHANDISING CO-OPERATIVES IN CANADA
CLASSIFIED BY COMMODITIES, FOR SELECTED POST-WAR YEARS,
(In Thousands of Dollars)

Years Ended July 31st	1947	1957	1958	1959	1960	1961	GROWTH PERCENTAGE 1961/1957
MERCHANDISING CO-OPERATIVES:							
Food Products	27,934	74,967	81,924	94,463	102,368	106,049	142%
Clothing and Furnishings	3,858	9,397	9,659	11,596	12,229	12,425	132%
Petroleum Products and Auto Accessories	14,671	47,414	52,275	57,855	63,957	69,986	148%
Feed and Fertilizers	53,438	100,272	100,817	108,857	116,406	122,103	122%
Hardware a/	-	-	18,250	21,464	25,660	26,056	143%
Machinery and Equipment	1,680	10,432	8,732	10,763	12,724	15,893	152%
Coal, Wood and Building Materials	8,034	22,432	17,319	20,032	23,705	23,944	107%
Miscellaneous	17,386	18,816	7,516	7,913	8,695	11,566	-
TOTAL MERCHANDISING	127,001	283,730	296,492	332,943	365,744	388,022	137%

a/ "Hardware" included in "Machinery and Equipment" total until 1958.

Source: Table constructed from data gathered by Economics Division, Department of Agriculture, Ottawa, Canada, and published in "Co-operation in Canada", selected issues.

TABLE XV

SELECTED RETAIL SALES IN CANADA CLASSIFIED BY COMMODITY GROUPINGS *
SELECTED POST-WAR YEARS
(In Millions of Dollars)

Years Ended December 31st	1947	1957	1958	1959	1960	1961	GROWTH PERCENTAGE 1959/1957	1960/1957	1961/1957
Grocery, Combination, Other Food and Beverage Stores	1,265	3,975	4,246	4,464	4,697	4,806			121%
Clothing and Home Furnishings Stores	627	1,414	1,441	1,485	1,487	1,501			106%
Hardware Stores	168	302	318	326	326	328			107%
Farm Implement and Equipment Sales a/	121	184	206	251	259	237			129%
Garage & Service Stations	380	939	1,037	1,104	1,145	1,153			123%
Lumber and Building Materials	208	458	482	492	436	433			95%
Fuel Dealers b/	157	322	326	342	324	323			100%
Feeds and Fertilizers c/	237	333	374	391**	-	-	117%		
Petroleum Products d/	289	1,377	1,369	1,157	1,175**	-		85%	

* Data taken from Dominion Bureau of Statistics "Retail Trade", 1949, 1957, 1958, 1959, 1960, 1961
** Most Recent Figures available.
a/ Farm Implement and Equipment Sales in Canada, 1947, 1957, 1958, 1959, 1960, 1961 (Wholesale figures).
b/ Includes dealers in coal, wood and fuel oil.
c/ Gross selling value at factory; see D.B.S. "The Fertilizer Manufacturing Industry 1947, 1957, 1958, 1959. The "Feeds Industry" 1957, 1958, 1959.
d/ Gross Selling Value at Refinery, see D.B.S. "The Petroleum Products Industry in Canada", 1947, 1957, 1958, 1959, 1960.

TABLE XVI

ESTIMATED RETAIL TRADE BY PROVINCES AND KINDS OF BUSINESS
JANUARY to DECEMBER, 1962

(In Millions of Dollars)

KIND OF BUSINESS	Canada	Atlantic Provinces	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Grocery and combination	3,694	351	1,064	1,399	151	136	263	329
Other food and beverage	1,307	107	369	538	39	41	72	140
General	686	153	119	121	56	98	72	68
Department	1,556	110	285	522	133	68	174	264
Variety	380	45	104	163	10	13	22	23
Motor Vehicle	2,798	255	645	1,014	120	193	256	316
Garage and filling station	1,179	99	284	481	44	72	94	104
Men's clothing	275	15	87	103	7	11	23	29
Family Clothing	250	34	90	67	11	14	13	20
Women's clothing	284	12	87	120	7	8	23	28
Shoe	172	11	53	76	4	3	10	16
Hardware	339	21	85	105	22	37	44	25
Lumber & Building material	456	21	84	147	46	44	76	38
Furniture, appliance and radio	568	41	195	205	24	18	42	43
Restaurant	569	31	152	232	28	32	46	50
Fuel	334	15	102	173	10	4	2	28
Drug	426	33	98	177	23	18	32	47
Jewellery	138	9	31	62	5	7	8	15
All other	2,046	125	434	846	119	142	181	199
TOTALS	17,457	1,486	4,368	6,550	859	958	1,452	1,784

Note: Totals may not balance due to rounding of figures.
Source: Prepared in the Industry and Merchandising Division, Dominion Bureau of Statistics, Ottawa, Canada
"Retail Trade" December, 1962, Volume No. 34, No. 11.

TABLE XVII

STATISTICAL SUMMARY OF WHOLESALE CO-OPERATIVES IN CANADA
SELECTED POST-WAR YEARS

Years Ended July 31	Number of Wholesales Reporting	Sales of Farm Products ($000)	Sales of Supplies ($000)	TOTAL Sales ($000)	Total Assets ($000)	Liabilities to Public ($000)	Liabilities to Members ($000)	Members Equity ($000)
1947	11	43,900	40,000	83,900	14,500	7,500	1,200	7,000
1957	10	93,261	126,004	219,265	58,134	33,201	8,965	24,933
1958	10	111,669	138,361	250,030	65,817	37,330	8,351	28,487
1959	10	120,552	166,260	286,812	78,368	45,839	6,531	32,529
1960	10	120,971	179,045	300,016	88,258	52,900	5,337	35,358
1961	10	122,610	196,285	318,895	101,155	63,356	4,732	37,799

Source: Table constructed from data gathered by Economics Division, Department of Agriculture, Ottawa, Canada and published in "Co-operation in Canada" selected issues.

TABLE XVIII

PERCENTAGE DISTRIBUTION OF SALES OF WHOLESALE CO-OPERATIVES IN CANADA
CLASSIFIED BY COMMODITIES, FOR SELECTED POST-WAR YEARS

Years Ended July 31	1953	1957	1958	1959	1960	1961
MARKETING SALES:						
Dairy Products	45.8	25.8	29.5	19.8	21.0	21.2
Poultry and Eggs	11.2	10.9	9.7	5.6	6.3	7.2
Fruits and Vegetables	5.5	2.9	3.4	2.6	3.7	3.0
Livestock & Livestock Products	28.6	55.6	53.9	63.5	60.3	58.4
Grains and Seed	8.5	4.5	3.4	5.4	5.0	6.5
Fish	0.4	-	-	-	-	-
Miscellaneous	-	0.3 a/	0.1 a/	3.1 a/	3.7 a/	3.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
DOLLAR VOLUME (000)	$43,916	$93,261	$111,669	$120,552	$120,971	$122,610
MERCHANDISING SALES:						
Groceries	11.7	15.1	14.9	15.7	16.9	17.8
Clothing, Dry Goods and Home Furnishings	1.0	0.9	1.1	1.0	1.3	1.4
Gas, Oil, Auto Supplies	24.8	22.9	22.4	21.7	22.4	21.6
Flour, Feed, Fertilizer	37.3	37.0	36.7	36.3	35.9	36.2
Machinery, Hardware & Equipment	12.8	14.0	13.5	14.3	13.6	13.7
Coal, Wood and Building Materials	7.2	6.6	7.5	7.2	6.7	7.0
Miscellaneous	2.2	1.9	2.9	3.0	2.5	2.1
Retail	3.0	1.6	1.0	0.8	0.7	0.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
DOLLAR VOLUME (000)	$83,313	$126,004	$138,361	$166,260	$179,045	$196,285

a/ Farm Products "Miscellaneous" includes fish, flax, wool.

Source: Table constructed from data gathered by Economics Division, Department of Agriculture, Ottawa, Canada, and published in "Co-operation in Canada" selected issues.

TABLE XIX

RELATIVE NUMBER OF ELEVATORS OPERATED BY THE THREE POOLS, UNITED GRAIN GROWERS LTD., AND LINE ELEVATOR COMPANIES AND ESTIMATED PROPORTION OF BUSINESS HANDLED BY CO-OPERATIVES AND INVESTOR-OWNED BUSINESS - SELECTED POST-WAR YEARS

Crop Year	Total All Licensed Elevators (1)	Total Pool Elevators (1)	Number of U.G.G. Elevators (1)	Number of Line Co. Elevators (1)	% of Pool and U.G.G. Elevators %	% of Line Company Elevators %	Estimate of % of Business done by 3 Pools & U.G.G. % (2)	Estimate of % of Business done by Line Companies % (2)
1946-47	5,399	1,765	507	3,136	42	58	52	48
1956-57	5,354	1,947	678	2,729	49	51	56	44
1957-58	5,343	1,946	676	2,721	49	51	57	43
1958-59	5,314	1,947	667	2,700	49	51	56	44
1959-60	5,308	1,947	794	2,567	52	48	61	39
1960-61	5,296	2,181	778	2,337	56	44	63	37
1961-62	5,266	2,167	774	2,325	56	44	66	34

(1) These figures were obtained from Board of Grain Commissioners' Licensed Elevators List.

(2) These estimates are arrived at as follows:

(i) So far as the Pools' share of business is concerned, the percentage of business was taken from the Annual Reports of each Pool (where it is given either as a percentage or as a number of bushels) -- in the latter case the number is applied to the total number of bushels delivered by the Board of Grain Commissioners.

(ii) The balance of the business was assumed to be apportioned between the United Grain Growers Limited and the Line Companies in the ratio of the number of elevators owned by each section. It is believed that, at least in later years, this necessarily arbitrary apportionment may tend to understate slightly, the percentage of business done by United Grain Growers and overstate that performed by the Line Companies.

(iii) The percentage of business performed by the Pools and the estimated percentage of business performed by the United Grain Growers was then added together. The balance was treated as handled by Line Companies.

(iv) While the percentages arrived at are approximations, it is believed that they are correct within one or two percentage points.

Source: The North-West Line Elevators Association - Submission to the Royal Commission on Taxation, August 28, 1963.

TABLE XX

POOL COUNTRY ELEVATOR RECEIPTS AND PERCENTAGE OF ALL COUNTRY ELEVATOR RECEIPTS HANDLED BY POOL ELEVATORS - SELECTED POST-WAR YEARS *

Crop Year	Total Pool Receipts (Bus.) (1)	All Country Receipts (Bus.) (2)	Total No. Pool Licensed Elevators (3)	Total Line & U.G.G. Licensed Elevators (4)	% of Licensed Elevators Owned by Pools (5)	% Country Elevators Receipts Handled at Pool Elev. (6)
1946-47	221,312,084	506,711,000	1,756	3,642	32.53%	43.68%
1956-57	257,264,543	578,599,000	1,947	3,405	36.38%	44.46%
1957-58	262,442,423	570,082,839	1,948	3,393	36.47%	46.04%
1958-59	249,092,611	546,228,394	1,947	3,365	36.65%	45.61%
1959-60	249,939,645	511,891,951	2,183	3,119	41.18%	48.83%
1960-61	271,008,588	540,112,000	2,181	3,115	41.16%	50.17%
1961-62	213,827,019	397,910,213	2,167	3,099	41.15%	53.74%

(1) Source - Annual Report of 3 Pools
(2) Source - Board of Grain Commissioners' figures through Sanford Evans Statistical Service.
(3) Source - Board of Grain Commissioners' Grain Elevators in Canada.
(4) Source - Board of Grain Commissioners' Grain Elevators in Canada.
(5) Calculated.
(6) Calculated.

* Reproduced from The North-West Line Elevators Association Submission to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXI (a)

COMPARATIVE BALANCE SHEET VALUE OF PLANT AND EQUIPMENT
MANITOBA POOL ELEVATORS, SASKATCHEWAN WHEAT POOL, and ALBERTA WHEAT POOL
AS AT JULY 31st, 1958 and JULY 31st, 1962

MANITOBA POOL ELEVATORS
INVESTMENT IN PLANT & EQUIPMENT

	July 31, 1958	July 31, 1962
Country Elevators	$ 11,251,742.00	$ 13,561,983.00
Terminal Elevators	3,093,388.00	5,821,907.00
Terminal Addition	-	-
Terminal - Under Construction	-	5,202,407.00
St. Boniface Seed Plant	325,280.00	334,629.00
Portage la Prairie Feed Mill	11,777.00	-
Brandon Livestock Market	92,026.00	105,203.00
Brandon Packing Plant	-	198,360.00
Land Option - Brandon	-	1,200.00
Winnipeg Warehouse	19,942.00	20,256.00
Pool Building - Winnipeg	555,285.00	672,956.00
Less: Investment of Saskatchewan and Alberta Pools (52%)	(288,748.00)	(349,937.00)
Office Equipment	87,846.00	117,896.00
Autombbiles, etc.	43,900.00	45,396.00
Miscellaneous Country Properties	-	4.00
	$15,192,438.00	$25,732,260.00

Note: Brackets denote deductions.

Long Term Debt

4¼% Redeemable Debenture Bonds due 1963	$ 1,692,100.	Secured Bank Loans	$ 666,667	
		4¼% Redeemable Debenture Bonds due 1963	540,300	
		4¼% Redeemable Debenture Bonds due 1969	2,453,100	
		6¼% First Mortgage Bonds due 1964-81	3,500,000	$7,160,067

Source: The North-West Line Elevators Association Submission to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXI (b)

SASKATCHEWAN WHEAT POOL
INVESTMENT IN PLANT AND EQUIPMENT

	July 31, 1958	July 31, 1962
Saskatchewan Wheat Pool	$ 728,397.61	$ 772,669.00
Saskatchewan Pool Elevators	40,111,965.14	50,049,552.00
Terminal Elevators	20,259,309.33	23,044,523.00
Flour Mill	3,052,783.19	3,234,552.00
Vegetable Oil Plant	690,482.79	1,495,332.00
Vegetable Oil & Flour Mill Power and Sundry	280,405.87	283,648.00
Livestock Producers Ltd.	400,865.37	590,674.00
Modern Press	1,155,472.10	1,365,978.00
Saskatchewan Pool Terminal Equipment, etc.	74,841.66	86,213.00
Work under construction	-	489,819.00
	$ 66,754,523.06	$ 81,412,960.00

Long Term Debt:

Source: The North-West Line Elevators Association Submission to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXI (c)

ALBERTA WHEAT POOL
INVESTMENT IN PLANT & EQUIPMENT

	July 31, 1958	July 31, 1962
Buildingsand Machinery	$ 17,097,024.57	$ -
Vancouver Terminal	6,191,745.04	-
Port Arthur Terminal	985,683.22	31,237,185.00
Calgary Warehouses	18,800.00	-
Office Building	308,616.39	-
Wheat Pool Building - Winnipeg	16,898.42	-
Uncompleted Construction	124,756.08	-
Office Building - Uncompleted	2,275,181.00	246,852.00
Office Furniture	250,676.18	-
Automobiles, etc.	203,118.59	-
Terminal Equipment	18,382.15	647,512.00
Cleaners and Loaders	11,313.15	-
Maintenance Equipment	116,676.70	-
	$ 27,618,871.49	$ 32,131,549.00
Long Term Debt:		
	3½% Mortgage Debenture	4½ Mortgage Debentures
	$ 3,500,000.00	$ 833,333.00

Source: The North-West Line Elevators Association Submission to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXII

PROVISION FOR INCOME TAX EXPRESSED
AS A PERCENTAGE OF NET EARNINGS *

SASKATCHEWAN WHEAT POOL
(all divisions)

Year	Net Earnings (1)	Provision for Income Tax (2)	Income Tax Expressed as a Percentage of Net Earnings
1952-53	$ 6,904,627	$ 415,063	6.0%
1953-54	4,707,720	412,518	8.8%
1954-55	4,481,852	490,912	11.0%
1955-56	4,574,573	530,000	11.6%
1956-57	4,512,298	799,595	17.7%
1957-58	6,356,092	541,576	8.5%
1958-59	6,339,058	585,000	9.2%
1959-60	5,022,748	595,000	11.8%
1960-61	6,371,806	605,448	9.5%
1961-62	3,824,452	520,000	13.6%
	53,095,226 (Total)	5,495,112 (Total)	10.3% (Average)

(1) Source: Annual Reports of Saskatchewan Wheat Pool - Statements of Operating Surplus

(2) Annual Reports of Saskatchewan Wheat Pool - Statements of surplus Allocation, adjusted to show revisions appearing in succeeding years.

* Reproduced from the Submission of the North-West Line Elevators Association to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXIII

PROVISION FOR INCOME TAX EXPRESSED *
AS A PERCENTAGE OF NET EARNINGS
ALBERTA WHEAT POOL

Year	Net Earnings (1)	Income Tax Paid (1)	Income Tax Paid Expressed as a % of Net Earnings
1952-53	$ 2,690,737.40	$ 92,438.85	3.4%
1953-54	2,448,106.47	99,364.52	4.1%
1954-55	1,333,278.49	116,000.00 ✕✕	8.7%
1955-56	1,042,807.00	127,556.00	12.2%
1956-57	1,292,815.00	117,004.00	9.0%
1957-58	2,365,604.00	98,015.00	4.1%
1958-59	3,308,594.00	124,803.00	3.8%
1959-60	2,426,508.31	109,754.00	4.5%
1960-61	2,860,408.00	160,407.00	5.6%
1961-62	2,787,769.00	169,217.57 ✕✕✕	6.1%
Excluding 1946-1947	22,556,627.67 (Total)	1,214,559.94 (Total)	5.4% (Average)

(1) Source: Annual Reports of Alberta Wheat Pool - Statement of Earnings, Expenses and Patronage Dividends.

✕✕ Tax figure for this year was not published in the Annual Report. The figure used represents an estimate based on an examination of the prior and subsequent year's reports.

✕✕✕ This is an estimated figure.

* Reproduced from the Submission of the North-West Line Elevators Association to the Royal Commission on Taxation, August 28th, 1963.

TABLE XXIV

STATISTICAL SUMMARY OF FISHERMEN'S CO-OPERATIVES IN CANADA ✱
CLASSIFIED BY PROVINCES FOR YEARS 1948 and 1960

Province	Years Ended July 31	Number of Associations Reporting	Number of Members	Sales of Fish ($000)	Sales of Supplies ($000)	Total Business Including "Other" Revenues ($000)	Total Assets ($000)	Liabilities to the Public ($000)	Liabilities to the Members ($000)	Members' Equity ($000)
British Columbia	1948	5	6,151	$ 9,493	$ 1,027	$ 10,523	$ 7,966	$ 4,478	$ 1,726	$ 3,489
	1960	4	3,709	6,055	-	6,109	5,351	2,213	1,828	3,138
Saskatchewan	1948	-	-	-	-	-	-	-	-	-
	1960	8	390	410	-	410	21	-	-	21
Ontario	1948	-	-	-	-	-	-	-	-	-
	1960	8	221	1,926	413	2,388	1,353	577	671	776
Quebec	1948	36	3,600	1,675	407	2,108	1,102	561	77	541
	1960	28	3,007	3,574	677	4,288	2,017	1,177	-	840
New Brunswick	1948	15	1,307	1,266	236	1,508	540	247	32	293
	1960	8	784	1,339	136	1,482	522	219	10	303
Nova Scotia	1948	23	1,471	2,186	194	2,385	740	320	166	420
	1960	13	1,553	2,522	173	2,698	1,160	742	89	418
Pr. Edward Island	1948	8	237	320	115	435	91	25	3	66
	1960	5	209	932	210	1,145	253	63	51	190
Newfoundland	1948	-	-	-	-	-	-	-	-	-
	1960	5	355	148	110	299	333	338	-	5 a/
Interprovincial	1948	-	-	-	-	-	-	-	-	-
	1960	1	69	3,724	445	4,171	1,304	973	-	331
Canada	1948	87	12,766	$14,940	$1,979	$16,959	$10,439	$5,630	$2,004	$4,809
	1960	80	10,297	20,630	2,164	22,990	12,314	6,302	2,649	6,012

a/ Deficit

✱ Source: Table constructed from data gathered by Economics Division, Marketing Service, Department of Agriculture, Ottawa, Canada, and published in Cooperation in Canada, selected issues. The earliest year for which the foregoing data are available is 1948.

TABLE XXV

CO-OPERATIVE ORGANIZATIONS IN SASKATCHEWAN (REPORTING FOR THE YEAR ENDED DECEMBER 31, 1961, or FOR THE FISCAL YEAR NEAREST THAT DATE)

	Organ-izations Reporting	Places of Business	Membership		Net Fixed Assets	Total Assets	Liab. to the Public	Liab. to the Members	Paid Up Capital	Reserves Undivided Surplus	Services Rendered
	Number	Number	Ass'ns. Number	Individuals Number	$	$	$	$	$	$	$
MARKETING ASSOCIATIONS											
Grain and Seed	15 a/	1,270	12	148,455	31,641,957	115,560,995	69,753,280	31,105,187	169,687	14,532,841	155,546,147
Livestock	4	12	-	2,016	95,278	420,462	26,757	297	178,720	214,688	77,392,030
Assembling & Marketing b/ Dairy and Poultry											
Assembling, Processing, Marketing	2	46	-	145,000	4,673,580	10,889,689	2,602,122	7,321,131	554,147	412,289	30,851,148
Hatchery	1	1	-	66	19,933	34,692	30,476	19,985	370	g/16,139	23,496
Honey	1	1	-	423	192,543	517,766	411,834	-	89,994	15,938	452,959
Oil, Meal Cake c/	-	1	-	-	-	-	-	-	-	-	1,820,998
Flour, Mill Feeds & Screenings c/	-	1	-	-	-	-	-	-	-	-	7,266,003
Vegetable	2	2	-	33	80,904	118,677	91,614	2,916	35,050	g/10,903	7,714
Dehydrators	1	1	-	35	91,368	94,764	41,160	-	53,604	-	-
WHOLESALING d/	1	10	450	-	15,190,730	41,607,913	20,520,947	2,061,483	14,415,367	3,610,116	71,940,734
CONSUMER ASSOCIATIONS (RETAIL)	325	381	-	222,009	18,035,738	52,846,902	16,142,097	4,821,219	23,670,446	8,213,120	84,723,467
SERVICE ASSOCIATIONS											
Community (include halls, theatres, rinks, etc)	386	386	-	32,826	2,129,327	2,340,612	300,764	41,803	484,662	1,513,383	-
Miscellaneous Service	37	38	570	60,144	10,014,738	18,554,925	138,779	3,585,695	737,636	14,092,815	e/3,089,462
CREDIT ASSOCIATIONS											
Credit Unions	280	280	-	156,492	3,024,572	110,664,250	1,630,112	20,558,049	84,852,216	3,623,873	f/51,284,944
Other Credit Associations	2	3	880	-	279,249	33,565,884	4,684,320	10,870,351	16,449,160	1,562,053	f/44,047,044

continued .....

TABLE XXV

	Organizations Reporting	Places of Business	Membership		Net Fixed Assets	Total Assets	Liab. to the Public	Liab. to the Members	Paid up Capital	Reserves Undivided Surplus	Services Rendered
			Ass'ns.	Individuals							
	Number	Number	Number	Number	$	$	$	$	$	$	$
PRODUCTION ASSOCIATIONS											
Co-operative Farms	16	16	-	172	1,269,733	1,618,087	571,945	735,188	229,218	81,736	641,919
Use of Farm Machinery	4	4	-	27	41,744	51,947	4,978	9,526	36,856	587	25,343
Grazing Co-operatives	110	110	-	1,438	586,013	728,754	51,558	499,939	166,928	10,329	215,363
Fodder Co-operatives	42	42	-	236	14,823	22,079	541	22,051	2,435	g/2,948	37,191
Artificial Breeding Co-ops	17	17	-	3,790	47,634	96,262	7,619	27,075	20,975	40,593	192,527
Feeding Co-operatives	31	31	-	528	-	281,979	269,433	1,880	11,260	g/ 594	317,759
Miscellaneous Production	33	33	-	1,099	84,027	147,012	90,131	99,262	60,748	g/103,129	57,669
NORTHERN DEVELOPMENT											
Fish Marketing Associations	16	16	-	979	277,369	957,579	703,064	-	97,081	157,434	1,246,892
Consumer Associations (Retail)	14	14	-	1,807	115,120	752,579	482,480	674	124,546	144,879	1,023,372
Service	11	11	-	604	14,843	79,485	54,868	281	7,952	16,384	75,868
TOTAL 1961-62	1,351	2,727	1,912	778,179	87,921,223	391,953,294	118,610,879	81,783,992	143,449,078	48,109,345	532,280,049
1960-61	1,308	2,646	1,981	743,889	73,503,115	378,129,202	141,630,806	71,564,292	116,871,237	48,062,867	h/531,476,578
1959-60	1,259	2,604	1,716	675,838	65,960,168	336,889,622	132,047,725	68,012,915	94,459,850	42,369,132	460,170,555
1958-59	1,243	2,474	2,079	663,327	60,845,061	303,651,663	118,821,152	67,350,389	77,437,197	40,042,925	441,932,067
1957-58	1,236	2,477	2,062	631,292	58,534,524	271,483,448	115,443,077	59,837,890	61,734,470	34,468,011	436,223,428
1956-57	1,216	2,459	2,033	612,023	56,998,038	254,001,489	110,876,890	61,636,284	48,273,832	33,214,483	372,092,669
1955-56	1,209	2,443	2,375	593,778	51,261,157	242,647,783	113,695,393	57,891,530	40,603,126	30,457,734	368,316,044
1954-55	1,165	2,405	2,244	619.683	49,674,626	219,209,195	101,963,524	54,235,673	35,500,372	27,509,626	313,138,358

a/ Includes 1,252 country elevators.
b/ Includes division of Saskatchewan Wheat Pool, data other than Services Rendered included under Grain and Seed.
c/ Divisions of Saskatchewan Wheat Pool.
d/ Sales in Saskatchewan $49,921,863; in Manitoba $22,018,871.
e/ Includes premiums received by insurance companies.
f/ Loans made during year.
g/ Deficit
h/ Revised

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan "Eighteenth Annual Report" 1962, p. 15.

TABLE XXVI

MEMBERSHIP AND SERVICES RENDERED IN SASKATCHEWAN
BY CO-OPERATIVES OPERATING INTER-PROVINCIALLY, 1961-1962

Association	Membership	Services Rendered
	Number	$
United Grain Growers Limited	16,078	25,150,985
Canadian Co-op Wool Growers Limited	169	224,300
Interprovincial Co-operatives Limited	A	8,036,273
Canadian Co-operative Implements Ltd.	36,014	4,000,740
Co-operative Life Insurance Co.	85,107	959,159 (a)
Co-operative Fire and Casualty	4,417	180,495 (a)
TOTALS 1961-62	141,795	38,551,952
TOTALS 1960-61	129,920	46,967,952
1959-60	97,132	39,899,978
1958-59	94,151	37,130,958
1957-58	73,094	32,898,720
1956-57	70,802	31,635,044
1955-56	69,503	28,968,678
1954-55	68,685	25,971,346

A Membership comprises other co-operative associations only.

(a) Premium income.

Source: Department of Co-operation and Co-operative Development
Province of Saskatchewan "Eighteenth Annual Report", 1962, p. 16.

TABLE XXVII

EARNINGS OF SASKATCHEWAN CO-OPERATIVES
1954 to 1961-62

1961-62	$ 17,908,544
1960-61	21,774,824
1959-60	18,689,354
1958-59	18,997,438
1957-58	11,511,791
1956-57	13,666,217
1955-56	11,751,073
1954-55	10,209,188

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 16.

TABLE XXVIII

SERVICES RENDERED BY CO-OPERATIVES
IN SASKATCHEWAN 1954-55 to 1961-62

Type of Association	1961-62	
	($000)	%
Grain Marketing	180,697	31.6
Other Marketing	119,285	20.9
Distributing	83,978	14.7
Consumer	85,747	15.0
Credit	95,332	16.7
Service	4,305	.8
Production	1,488	.3
TOTALS	570,832	100.0

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 16.

TABLE XXIX

FINANCIAL RESULTS OF ALL CO-OPERATIVE
MARKETING ORGANIZATIONS

	1954-55	1955-56	1956-57	1957-58
Number reporting	34	35	23	24
Places of business	1,234	1,233	1,225	1,223
Member associations	17	17	17	15
Membership	313,217	269,160	269,898	268,917
Fixed Assets	$ 26,701,617	$ 27,161,357	$ 27,596,269	$ 32,575,973
Total assets	118,994,015	134,697,771	130,991,371	137,985,919
Liabilities to the public	76,772,872	91,365,034	87,216,367	89,847,874
Liabilities to members	30,578,893	30,697,377	30,969,490	32,183,679
Paid up capital	857,777	898,870	723,154	950,497
Surplus and reserves	10,784,473	11,736,490	12,082,360	15,003,869
Commodities sold or marketed	193,465,844	235,968,397	221,737,844	269,508,811

	1958-59	1959-60	1960-61	1961-62
Number reporting	23	25	25	26
Places of business	1,210	1,325	1,315	1,335
Member associations	15	13	14	12
Membership	280,105	263,555	295,965	296,028
Fixed Assets	$ 32,972,188	$ 36,995,140	$ 37,256,743	$ 36,795,563
Total assets	145,085,218	154,045,931	158,714,728	127,637,045
Liabilities to the public	94,241,287	101,460,797	103,553,269	72,957,243
Liabilities to members	34,149,547	36,521,797	37,047,580	38,449,516
Paid up capital	1,009,594	1,041,877	951,621	1,081,572
Surplus and reserves	15,684,790	15,021,460	17,162,258	15,148,714
Commodities sold or Marketed	268,657,020	266,069,566	297,520,835	273,360,495

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 30.

TABLE XXX

CO-OPERATIVE MARKETING ORGANIZATIONS IN SASKATCHEWAN
Reporting for the Calendar Year 1961 or for the Last Fiscal Year

	Number Reporting	Places of Business	Membership		Total Assets	Liabilities to Public	Liabilities to Members	Paid Paid Up Capital	Surplus & Reserves	Net Worth	Services Rendered
			Assn's.	Individual	$	$	$	$	$	$	$
SUMMARY											
Grain and Forage Crop Seed	15	1,270	12	148,455	115,560,995	69,753,280	31,105,187	169,687	14,532,841	14,702,528	155,546,147
Livestock	4	12	-	2,016	420,462	26,757	297	178,720	214,688	393,408	77,392,030
Dairy & Poultry	2	46	-	145,000	10,889,689	2,602,122	7,321,131	554,147	412,289	966,436	30,851,148
Hatchery	1	1	-	66	34,692	30,476	19,985	370	16,139A	15,769A	23,496
Honey	1	1	-	423	517,766	411,834	-	89,994	15,938	105,932	452,959
Oil, Meal Cake	-	1	-	-	-	-	-	-	-	-	1,820,998
Flour	-	1	-	-	-	-	-	-	-	-	7,266,003
Vegetable Storage	2	2	-	33	118,677	91,614	2,916	35,050	10,903A	24,147	7,714
Dehydrators	1	1	-	35	94,764	41,160	-	53,604	-	53,604	-
Total Marketing Association	26	1,335	12	296,028	127,637,045	72,957,243	38,449,516	1,081,572	15,148,714	16,230,286	273,360,495

A Deficit

Source: Department of Co-operative and Co-operative Development, Province of Saskatchewan, "Eighteenth Annual Report", 1962, p. 31.

TABLE XXXI

FEDERATED CO-OPERATIVES LIMITED

Date	Member Ass'ns.	Sales Includes Refinery & Wholesale etc.	Earnings	Dividends Received Included in Earnings	Total Assets	Securities	Borrowed Refunds	Shares	Reserves	Surplus
(1) 1934	-	341,440	4,158	-	75,156	-	-	22,525	7,829	-
1935	-	693,772	42,660	-	202,000	-	-	56,725	34,107	-
1936	-	1,051,901	55,269	-	278,271	-	-	85,449	48,060	-
1937	191	933,111	22,228	-	387,705	3,304	-	122,187	37,768	-
1938	539	1,664,473	159,812	-	528,633	44,338	-	156,800	141,256	-
1939	780	2,508,592	212,226	-	949,155	138,500	-	257,296	224,733	-
1940	623	3,857,635	318,211	-	1,428,602	213,135	-	367,862	421,364	-
1941	626	4,814,243	390,498	-	1,988,920	337,932	-	512,122	450,690	-
1942	664	6,104,564	354,826	-	2,456,324	412,383	-	883,674	599,613	-
1943	696	7,076,952	231,037	-	3,018,610	383,411	-	1,372,430	406,732	-
(2) 1944	461	6,838,629	305,441	-	3,218,015	366,574		723,265	880,902	-
1945	499	7,141,551	300,831	-	3,939,675	87,500	1,369,274	53,536	225,327	-
1946	512	9,381,142	558,672	4,569	3,705,242	222,000	1,668,338	55,748	309,637	-
1947	525	11,319,612	831,201	3,890	4,536,458	242,450	1,544,518	54,483	292,226	831,201
1948	536	13,288,684	433,802	7,133	5,333,697	473,800	1,864,865	445,590	429,008	433,802
1949	535	14,803,516	384,241	24,281	6,843,491	691,900	1,832,251	1,907,238	480,172	319,557
1950	515	17,046,751	526,446	22,802	7,235,448	935,350	1,778,224	1,982,355	550,287	452,102
1951	473	19,226,345	981,770	29,720	8,626,229	1,188,100	1,848,108	1,955,305	471,117	915,736
1952	478	23,920,896	1,785,972	53,902	10,111,738	1,902,550	2,120,630	1,763,892	531,954	1,743,444
1953	463	28,926,625	1,881,621	37,001	14,798,862	4,927,075	2,781,526	2,119,450	370,682	1,805,939
1954	431	31,624,572	1,023,287	64,503	21,346,256	9,731,850	3,522,205	2,679,942	369,596	966,852
(3) 1955	523	41,673,780	1,518,196	22,797	23,067,543	7,486,550	4,677,604	3,621,081	428,897	1,535,371
1956	501	46,051,129	2,058,092	20,564	24,086,554	8,478,850	5,351,002	4,091,461	411,928	2,058,092
1957	489	50,231,062	2,076,790	30,000	25,267,290	8,754,100	5,710,291	4,716,219	509,971	2,076,790
1958	483	54,054,450	3,152,288	38,000	27,919,067	9,516,200	4,746,726	6,523,105	447,839	3,152,288
1959	477	61,558,000	4,200,000	44,000	29,989,000	9,744,000	2,730,000	9,173,000	428,000	4,200,000
1960	475	67,310,000	3,591,000	22,000	35,303,000	9,963,000	1,231,139	12,859,959	385,000	3,591,000
1961	450	71,940,734	3,208,000	34,000	41,607,913	15,312,000	300,090	15,415,367	402,000	3,208,000

(1) 1934 to 1946 - Surplus included in Reserve.

(2) 1944 - Amalgamation - Refinery and Wholesale (Refinery became a separate wholly-owned subsidiary in 1952)

(3) 1955 - Manitoba included.

continued .....

NOTES - TABLE XXXI

Notes re. Different Columns

Column 3 - Sales Includes Refinery & Wholesale, etc.	All columns have wholesale and refinery added together for all years.
Column 6 - Total Assets	Including Coal Mines, Oil Wells, et cetera.
Column 7 - Securities	Bonds sold to Members and Public
Column 8 - Borrowed Refunds	Direct Cash Borrowings
Column 9 - Shares	Both cash subscription and surplus allocation
Column 10 - Reserves	Statutory Reserve
Column 11 - Surplus	At year end before allocation.

Note: 1961 - Earnings and Surplus are the same - 3,208,000

Note: 1962 - Alberta Co-op Wholesale amalgamated with Federated Co-operatives.

TABLE XXXII

SALES OF COMMODITIES REPORTED BY CONSUMER CO-OPERATIVES, SASKATCHEWAN, 1961

COMMODITY	SALES A	PROPORTION OF TOTAL
	$	%
Petroleum Products	24,983,751	30.25
Groceries	17,180,045	20.81
General Store	13,121,065	15.89
Lumber and Building Supplies	7,724,481	9.36
Hardware	5,893,198	7.14
Garage and Service Station	4,820,902	5.84
Meat	2,849,922	3.45
Dry Goods	2,265,054	2.74
Coal and Wood	612,093	.74
Feed and Fertilizer	2,150,402	2.60
Drugs	767,521	.93
Farm Machinery	161,470	.20
Farm Storage Tanks	20,902	.03
Twine	17,655	.02
TOTAL	82,568,461	100.00

A Total sales of consumer co-operatives in 1961 were $84,723,467. Data included here are for associations that reported a breakdown of sales by commodities.

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 41.

TABLE XXXIII

FINANCIAL RESULTS OF CONSUMER CO-OPERATIVES
ENGAGED IN RETAIL BUSINESS

	1954	1955	1956	1957
Number Reporting	$ 416	409	389	381
Membership	160,310	168,001	176,150	184,298
Sales	$ 53,432,227	$ 56,989,536	$ 61,509,861	$ 65,171,774
Total Assets	26,565,172	29,662,011	32,298,756	34,677,833
Liabilities to the public	5,064,216	6,471,771	7,247,490	8,007,643
Liabilities to the members	10,661,122	10,944,868	10,869,241	4,949,570
Paid up capital	5,931,173	6,706,351	8,136,949	15,381,251
Surplus and reserves	4,958,661	5,539,021	6,045,076	6,339,369
Accounts Receivable	2,132,498	2,620,908	2,718,563	2,779,118

	1958	1959	1960	1961
Number reporting	373	359	348	325
Membership	191,309	199,575	211,246	222,009
Sales	$ 70,203,866	$ 76,339,992	$ 83,211,863	$ 84,723,467
Total assets	37,357,201	41,626,221	46,786,602	52,846,902
Liabilities to the public	7,385,051	8,797,487	11,378,149	16,142,097
Liabilities to the members	4,869,885	4,834,105	4,850,061	4,821,219
Paid up capital	17,334,760	18,876,612	21,379,933	23,670,466
Surplus and reserves	7,767,505	9,118,017	9,178,459	8,213,120
Accounts receivable	2,982,560	3,680,296	4,328,019	4,797,706

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 41.

TABLE XXXIV

SASKATOON

Year	Number of Members	Sales	Earnings	Dividends Received From F.C.L. Included in Earnings	Total Assets	Loans from Members	Securities Sold to Members	Borrowed Refunds	Shares	Reserves	Surplus
1936	98	12,647	522	-	2,448	-	-	-	220	124	522
1937	119	15,810	708	-	4,080	-	-	-	660	80	708
1938	328	16,919	934	-	4,284	-	-	-	1,228	181	934
1939	466	80,525	3,488	-	18,823	-	-	-	4,709	445	3,488
1940	541	109,583	1,863	-	17,440	-	-	-	6,499	794	1,863
1941	541	116,059	760	-	16,953	-	-	-	7,273	1,162	760
1942	261	40,281	1,609	-	7,502	-	-	-	7,299	1,161	1,226
1943	261	41,281	2,431	-	10,174	-	-	-	4,874	2,160	2,431
1944	784	42,054	3,390	-	12,402	-	-	-	5,347	2,757	3,801
1945	794	52,346	3,210	-	15,374	-	-	-	6,346	4,644	3,889
1946	863	164,384	12,980	3,193	35,755	3,146	-	5,001	12,936	1,118	12,980
1947	949	223,195	8,486	3,069	63,675	6,808	-	10,181	17,027	2,624	13,432
1948	2,260	332,764	19,184	5,478	80,255	6,818	-	17,261	21,061	2,844	19,964
1949	2,600	372,433	5,144	2,089	105,752	6,084	-	20,936	32,143	6,028	4,738
1950	2,600	451,582	15,700	6,111	131,725	5,984	2,350	22,199	34,407	7,581	14,098
1951	2,850	603,582	39,722	16,206	204,560	4,284	36,000	21,318	42,248	11,554	35,714
1952	3,161	994,450	73,028	34,728	397,986	3,243	104,300	39,532	60,484	18,856	65,786
1953	4,900	2,023,017	200,036	51,708	565,728	-	110,000	56,324	89,983	21,054	199,827
1954	7,690	2,664,653	183,609	32,440	755,369	-	115,950	122,608	160,893	41,057	184,042
1955	7,800	3,196,450	158,694	40,434	922,331	469	124,800	168,949	229,250	75,728	141,943
1956	9,306	3,267,880	183,074	44,116	1,085,546	422	120,150	973	464,968	78,858	184,697
1957	10,440	3,192,699	178,852	40,520	1,316,427	-	113,200	478	547,649	97,658	183,493
1958	11,627	3,610,110	209,077	57,313	1,671,501	-	110,000	264	611,923	115,544	208,944
1959	13,719	4,735,955	300,802	85,552	2,029,583	-	105,450	184	663,707	136,451	300,745
1960	16,066	5,028,587	316,178	74,493	2,080,414	-	100,150	-	765,668	166,526	313,936
1961	17,911	5,133,265	310,807	64,280	2,070,246	-	87,100	-	873,011	182,526	316,320

* 1942 - Store Department ceased operations reopened again in 1946.

TABLE XXXV

SHERWOOD

Year	Number of Members	Sales	Earnings	Dividends Received from F.C.L. Included in Earnings	Total Assets	Securities Sold to Members	Borrowed Refunds	Shares	Reserves	Surplus
1931	130	31,473	4,053	-	5,500	-	-	155	-	4,053
1932	156	23,418	1,869	-	3,360	-	-	194	409	1,869
1933	242	37,043	4,892	-	6,355	-	-	242	126	4,892
1934	310	35,309	2,881	-	4,365	-	-	310	1,174	2,881
1935	402	70,047	11,335	4,276	15,994	-	-	423	4,056	11,335
1936	589	103,896	15,077	5,017	20,388	-	-	589	3,339	15,077
1937	774	96,692	12,423	2,994	25,833	-	-	9,345	2,021	12,423
1938	935	131,407	36,017	19,543	53,567	-	-	14,398	18,882	18,995
1939	1,255	179,379	46,319	20,722	83,116	-	-	23,899	24,066	32,561
1940	1,657	245,860	59,576	26,135	123,691	-	-	35,043	35,634	45,375
1941	2,428	332,005	70,552	25,722	157,526	-	-	44,814	55,307	50,583
1942	2,632	382,608	64,742	20,019	181,948	-	-	54,871	46,012	72,293
1943	3,157	434,073	51,206	13,152	196,883	-	37,183	53,329	22,562	63,308
1944	4,090	593,050	55,519	2,658	216,774	-	50,853	53,225	28,992	64,169
1945	4,867	663,798	73,858	17,520	275,625	-	83,939	52,912	27,000	81,198
1946	6,040	974,550	114,217	22,522	350,598	-	165,047	6,040	27,000	120,764
1947	6,825	1,197,081	146,086	40,161	430,592	-	212,824	8,331	37,000	150,446
1948	7,618	1,364,818	114,906	20,993	484,792	-	229,155	48,516	53,529	112,419
1949	8,704	1,617,382	141,739	13,809	549,648	-	205,807	113,260	56,409	136,108
1950	9,750	2,168,012	239,896	28,468	715,916	-	209,473	150,498	53,408	233,835
1951	10,959	2,429,363	276,929	50,716	829,012	-	227,375	209,393	78,568	271,232
1952	12,635	2,994,836	394,034	90,413	1,119,883	-	243,846	276,829	95,361	376,288
1953	14,670	4,019,234	524,391	112,882	1,383,123	-	276,981	372,624	129,468	514,087
1954	16,414	4,073,156	403,459	65,239	1,874,775	-	318,381	491,725	172,000	389,033
1955	17,891	4,371,381	319,818	72,125	2,736,431	-	358,517	581,859	204,000	281,088
1956	19,475	4,940,927	325,533	91,664	2,672,095	109,450	381,339	643,176	222,415	285,563
1957	20,663	5,028,495	334,274	82,993	2,666,922	136,000	401,265	703,871	237,865	297,193
1958	21,467	4,717,275	362,561	114,966	2,729,932	184,350	8,079	1,127,094	272,208	322,647
1959	21,467	4,799,380	356,834	143,116	2,800,457	196,500	6,025	1,176,849	307,892	316,845
1960	23,850	5,234,571	365,795	122,311	3,088,346	289,900	4,954	1,232,449	331,867	318,656
1961	25,373	5,574,938	186,992	114,551	4,141,995	460,500	2,759	1,334,667	318,235	203,748

TABLE XXXVI

COMBINED OPERATING STATEMENT OF 325 CONSUMER CO-OPERATIVE ASSOCIATIONS, SASKATCHEWAN 1961

	Percentage
Sales	100.00
Cost of Goods Sold	81.35
Gross Margin	18.65
Expenses	
Advertising and Donations	.42
Audit and Legal	.09
Bad Debt Allowance	.11
Cartage and Delivery	.30
Depreciation	1.63
Directors and Delegates	.09
Education and Meetings	.22
Exchange and Bank Charges	.03
Heat, Power, Water	.58
Insurance	.32
Interest	.81
License and Taxes	.73
Postage	.08
Repairs and Maintenance	.48
Salaries and Maintenance	9.79
Supplies	.52
Telephone and Telegraph	.16
Unclassified	.64
TOTAL EXPENSES	17.00
Operating Savings	1.65
Other Income Less Other Charges	3.16
NET SAVINGS	4.81

Source: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Eighteenth Annual Report, 1962, p. 44.

TABLE XXXVII

GROWTH OF CREDIT UNIONS IN CANADA, 1940-62

Year	Provinces	Credit Unions	Members	Members as a Percentage of Total Population	Assets
	No.	No.	No.	- per cent-	- Million Dollars -
1940	9	1,167	201,137	1.8	25
1941	9	1,314	238,463	2.1	31
1942	9	1,486	295,984	2.5	44
1943	9	1,780	374,069	3.1	69
1944	9	2,051	478,841	4.0	93
1945	9	2,219	590,794	4.9	146
1946	9	2,422	688,739	5.6	188
1947	9	2,516	779,199	6.2	221
1948	9	2,608	850,608	6.6	254
1949	10(1)	2,819	940,427	6.9	282
1950	10	2,965	1,036,175	7.5	312
1951	10	3,121	1,137,931	8.1	359
1952	10	3,333	1,260,435	8.7	424
1953	10	3,606	1,434,270	9.7	489
1954	10	3,920	1,560,714	10.3	552
1955	10	4,100	1,731,328	11.1	653
1956	10	4,258	1,870,277	11.6	761
1957	10	4,349	2,059,835	12.4	846
1958	10	4,485	2,187,494	12.8	1,009
1959	10	4,570	2,360,047	13.5	1,158
1960	10	4,667	2,544,300	13.9	1,299
1961	10	4,592	2,751,059	15.2	1,510
1962	10	4,638	2,884,100	15.7	1,691

(1) Newfoundland included for the first time.

Source: Table constructed from data compiled by the Canada Department of Agriculture and published in 'Co-operatives in Canada", Publication 1119, April 1962, p. 31, and International Credit Union Year Book, 1963, pages 1 and 7.

TABLE XXXVIII

MEMBERSHIP, SAVINGS, LOANS OUTSTANDING TO MEMBERS, RESERVES, ASSETS OF CREDIT UNIONS IN CANADA, 1955 - 1962 *

YEAR	Number of Credit Unions	Number of Members	Savings	Loans Outstanding to Members	Reserves	Assets
			($000)	($000)	($000)	($000)
1962	4,638	2,884,100	1,531,174	1,054,051	67,316	1,691,496
1961	4,592	2,751,059	1,387,344	947,945	58,765	1,509,720
1960	4,608	2,553,951	1,207,378	822,280	55,110	1,314,290
1959	4,570	2,360,047	1,059,606	731,397	50,246	1,158,000
1958	4,485	2,187,494	935,125	595,958	46,716	1,009,363
1957	4,349	2,059,835	786,914	499,981	40,250	846,000
1956	4,258	1,870,277	700,553	489,491	28,003	761,256
1955	4,100	1,731,328	602,818	372,715	30,999	652,554

* Source: Table constructed from statistical data published by the Credit Union National Association "International Credit Union Yearbook" 1963, pages 27 and 47.

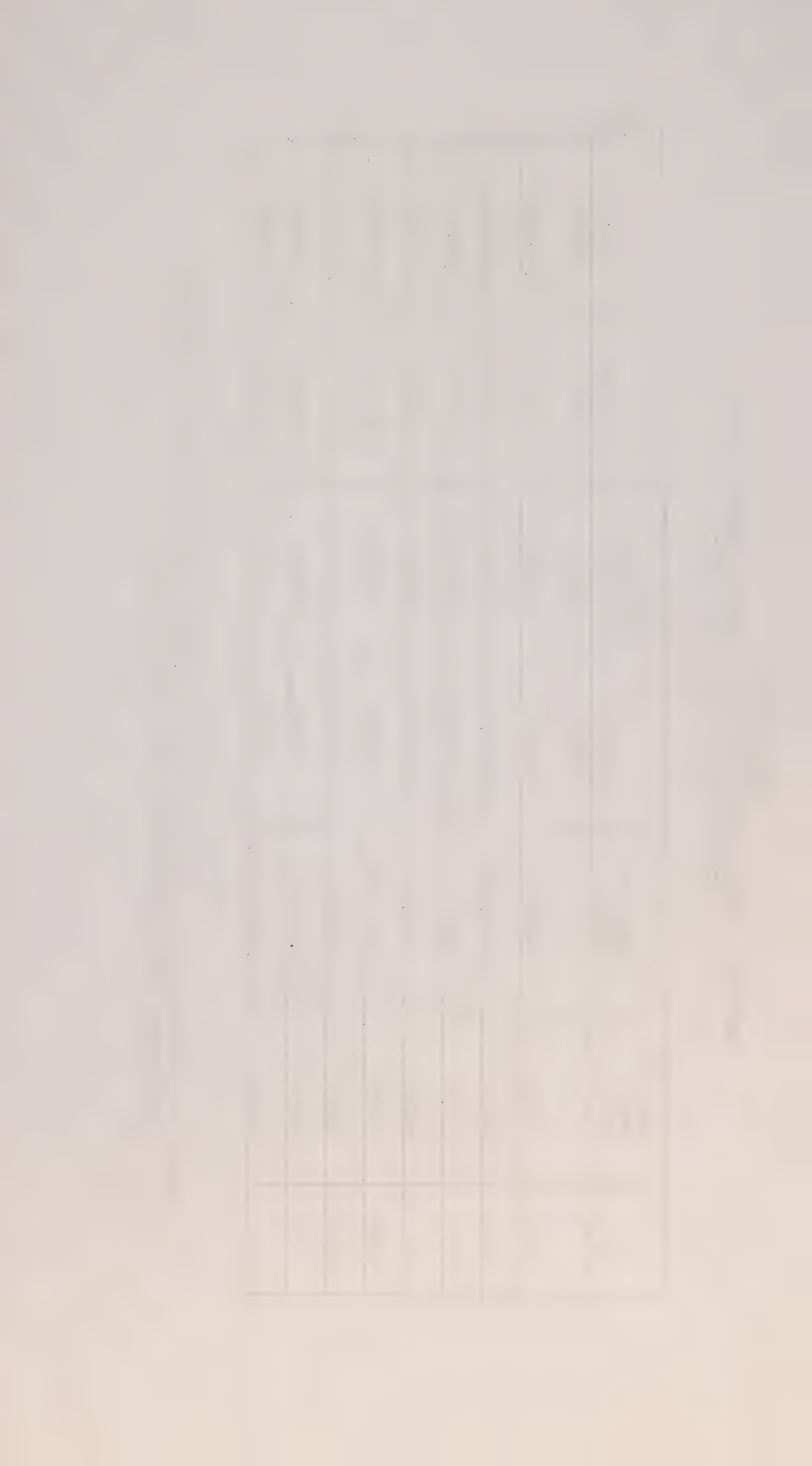

TABLE XXXIX

ABSTRACT OF ANNUAL STATEMENTS
RESPECTING BUSINESS TRANSACTED DURING THE YEAR ENDED DECEMBER 31, 1961

CANADIAN CO-OPERATIVE CREDIT SOCIETY LIMITED

ASSETS

CO-OPERATIVE CREDIT SOCIETIES	Loans to Members (less provision for loans in default)	Bonds and debentures	Stocks	Office Premises	Cash	Interest Dividends and Rents due and accrued	Other Assets	Total assets (book value)	Assets not admitted	Total admitted assets
	$	$	$	$	$	$	$	$	$	$
Canadian Co-operative Credit Society	300,000	131,917	...	...	16,781	7,422	...	456,140	...	456,140
Member Societies										
B.C. Central Credit Union	9,405,151	2,444,266	12,050	390,166	2,056,038	43,600	394	14,351,665	...	14,351,665
Co-operative Credit Society of Manitoba	1,738,784	163,975	400	...	155,442	2,048	10,375	2,071,024	...	2,071,024
Ontario Co-operative Credit Society	5,154,470	3,232,957	3,000	...	864,899	51,473	...	9,306,799	...	9,306,799
Saskatchewan Co-operative Credit Society	16,483,140	13,230,368	174,989	110,500	1,903,804	311,155	159,161	32,373,117	28,785	32,344,332
TOTALS - 1961	33,081,545	19,203,483	190,439	500,666	4,996,964	415,718	169,930	58,558,745	28,785	58,529,960
TOTALS - 1960	29,253,901	11,145,838	182,328	512,290	3,893,240	301,456	139,889	45,428,942	29,780	45,399,162

(continued ...
Liabilities, Capital and Surplus)

Source: Report of the Superintendent of Insurance for Canada,
Co-operative Credit Societies,
Queen's Printer, Ottawa, 1963.

TABLE XXXIX

ABSTRACT OF ANNUAL STATEMENT
RESPECTING BUSINESS TRANSACTED DURING THE YEAR ENDED DECEMBER 31, 1961
CANADIAN CO-OPERATIVE CREDIT SOCIETY LIMITED

LIABILITIES, CAPITAL AND SURPLUS

CO-OPERATIVE CREDIT SOCIETIES	Deposit by Members	Borrowed money and bank overdrafts	Interest Accrued	Other Liabilities	Provision for interest on paid capital and dividends to members	Provision for deficiency of market value under book value of investments	Guarantee Fund	Other Reserves	Paid Share Capital	Surplus	TOTAL
	$	$	$	$	$	$	$	$	$	$	$
Canadian Co-operative Credit Society	317,000	...	4,458	28	...	13,647	4,993	...	110,900	5,114	456,140
Member Societies											
B.C. Central Credit Union	12,050,547	300,000	190,369	46,446	65,000	5,682	124,295	113,591	1,415,235	40,500	14,351,665
Co-operative Credit Society of Manitoba	1,313,398	...	3,463	360	...	...	50,985	2,071	688,520	12,227	2,071,024
Ontario Co-operative Credit Society	7,303,427	945,300	22,206	31,001	...	...	66,166	94,729	843,970	...	9,306,799
Saskatchewan Co-operative Credit Society	11,251,122	2,445,180	22,232	668,519	67,977	556,595	940,824	14,574	16,360,090	17,219	32,344,332
TOTALS - 1961	32,235,494	3,690,480	242,728	746,354	132,977	575,924	1,187,263	224,965	19,418,715	75,060	58,529,960
TOTALS - 1960	23,544,528	4,845,937	54,752	53,909	102,641	607,599	970,412	53,137	15,105,720	60,527	45,399,162

Source: Report of the Superintendent of Insurance for Canada,
Co-operative Credit Societies,
Queens Printer, Ottawa, 1963.

TABLE XL

ABSTRACT OF ANNUAL STATEMENTS
RESPECTING BUSINESS TRANSACTED DURING THE YEAR ENDED DECEMBER 31, 1961
CANADIAN CO-OPERATIVE CREDIT SOCIETY LIMITED

REVENUE ACCOUNT - INCOME

CO-OPERATIVE CREDIT SOCIETIES	Interest Earned On			Charges for Chequing Services	Net Rents Earned	Other Income	TOTAL Income
	Loans to Members	Investments	Cash Deposits				
	$	$	$	$	$	$	$
Canadian Co-operative Credit Society	17,158	4,315	...	...	...	9	21,482
Member Societies							
B.C. Central Credit Union	492,203	107,211	...	71,143	23,958	125	694,640
Co-operative Credit Society of Manitoba	117,081	9,622	...	2,566	...	434	129,703
Ontario Co-operative Credit Society	332,326	131,690	...	26,367	...	...	490,383
Saskatchewan Co-operative Credit Society	663,380	451,121	269,851	59,337	...	53,098	1,496,787
TOTALS - 1961	1,622,148	703,959	269,851	159,413	23,958	53,666	2,832,995
TOTALS - 1960	1,429,850	479,256	191,502	136,462	24,693	43,699	2,305,462

REVENUE ACCOUNT - EXPENDITURES

CO-OPERATIVE CREDIT SOCIETIES	Interest incurred on deposits by Members	Interest incurred on borrowed money	Bank Service charges & clearing house fees	Taxes, licenses and fees	Salaries and Directors' fees	Rents	Other Expenses	Total Expenditures	Net Earnings
	$	$	$	$	$	$	$	$	$
Canadian Co-operative Credit Society	15,624	...	47	17	1,165	...	419	17,272	4,210
Member Societies									
B.C. Central Credit Union	337,497	43,272	53,866	...	65,123	9,432	53,575	562,765	131,875
Co-operative Credit Society of Manitoba	21,841	26,758	2,429	101	17,085	1,100	11,191	80,505	49,198
Ontario Co-operative Society	150,820	70,497	40,540	640	65,873	8,796	45,090	382,256	108,127
Saskatchewan Co-operative Credit Society	154,879	190,104	55,501	1,183	88,347	12,172	104,114	606,300	890,487
TOTALS - 1961	680,661	330,631	152,383	1,941	237,593	31,500	214,389	1,649,098	1,183,897
TOTALS - 1960	501,690	342,943	130,032	1,795	213,757	23,326	185,371	1,398,914	906,547

Source: Report of Superintendent of Insurance for Canada,
Co-operative Credit Societies,
Queen's Printer, Ottawa, 1963.

TABLE XLI

TOTAL GOVERNMENT EXPENDITURES EXPRESSED AS A
PERCENTAGE OF GROSS NATIONAL PRODUCT
FOR SELECTED CALENDAR YEARS, 1929 to 1961 *

Year	TOTAL GOVERNMENT EXPENDITURE							TOTAL GOVERNMENT EXPENDITURES AS A % OF GROSS NATIONAL PRODUCT						
	Federal	Federal[a]	Provincial	Provincial[a]	Municipal	Municipal[a]	All Governments[a]	Federal	Federal[a]	Provincial	Provincial[a]	Municipal	Muni-cipal[a]	All Governments[a]
	$mm	$mm	$mm	$mm	$mm	$mm	$mm	%	%	%	%	%	%	%
1929	346	329	255	225	426	419	973	5.6	5.4	4.2	3.7	6.9	6.8	15.9
1933	365	309	295	275	360	350	934	10.4	8.8	8.4	7.8	10.3	10.0	26.6
1939	464	385	450	418	374	367	1,170	8.2	6.8	8.0	7.4	6.6	6.5	20.8
1945	4,272	4,115	504	441	427	420	4,976	36.1	34.8	4.3	3.7	3.6	3.5	42.0
1946	2,850	2,676	603	524	499	492	3,692	24.1	22.6	5.1	4.4	4.2	4.2	31.2
1947	2,056	1,864	766	665	594	587	3,116	15.6	14.2	5.8	5.1	4.5	4.5	23.7
1948	1,917	1,767	939	810	724	715	3,292	12.7	11.7	6.2	5.4	4.8	4.7	21.8
1949b/	2,174	1,987	1,085	928	819	809	3,724	13.3	12.2	6.6	5.7	5.0	5.0	22.8
1950	2,330	2,079	1,176	1,005	909	898	3,982	12.9	11.5	6.5	5.6	5.0	5.0	22.1
1951	3,089	2,830	1,336	1,139	1,028	1,015	4,984	14.6	13.4	6.3	5.4	4.9	4.8	23.5
1952	4,373	4,005	1,371	1,156	1,170	1,157	6,318	18.2	16.7	5.7	4.8	4.9	4.8	26.3
1953	4,584	4,172	1,409	1,167	1,289	1,274	6,613	18.3	16.7	5.6	4.7	5.2	5.1	26.4
1954	4,628	4,198	1,534	1,275	1,392	1,377	6,850	18.6	16.9	6.2	5.1	5.6	5.5	27.5
1955	4,761	4,311	1,740	1,413	1,578	1,556	7,280	17.5	15.9	6.4	5.2	5.8	5.7	26.8
1956	5,034	4,549	2,013	1,651	1,807	1,789	7,989	16.5	14.9	6.6	5.4	5.9	5.9	26.1
1957	5,339	4,818	2,266	1,814	2,049	2,021	8,653	16.7	15.1	7.1	5.7	6.4	6.3	27.1
1958	6,091	5,428	2,578	2,033	2,301	2,284	9,745	18.5	16.5	7.8	6.2	7.0	6.9	29.6
1959	6,358	5,482	3,006	2,384	2,521	2,497	10,363	18.2	15.7	8.6	6.9	7.2	7.2	29.8
1960	6,667	5,673	3,394	2,679	2,782	2,766	11,118	18.6	15.8	9.4	7.4	7.7	7.7	30.9
1961	7,110	5,987	3,789	2,956	2,979	2,959	11,902	19.3	16.3	10.3	8.0	8.1	8.0	32.3

a - Exclusive of inter-governmental transfers.
b - Includes Newfoundland for 1949 and subsequent years.

Source: National Accounts, Income and Expenditure, Dominion Bureau of Statistics (dollar figures only).

* Reproduced from the Canadian Tax Foundation Publication "The National Finances", 1962-63, p. 16.

TABLE XLII

BUDGETARY REVENUE
FISCAL YEARS 1959 to 1963
($ Million) *

	1959	1960	1961	1962 a/	1963 b/
TAXES					
Taxes on Income					
Personal Income Tax c/	1,353.5	1,566.6	1,711.2	1,800.0	1,784.0
Non-Resident Income Tax	61.2	73.3	88.2	115.0	120.0
Corporation Income Tax c/	1,020.6	1,142.9	1,276.6	1,205.0	1,168.0
TOTAL	2,435.3	2,782.8	3,076.0	3,120.0	3,072.0
Estate Tax (or Succession Duties)	72.6	88.4	84.9	85.0	90.0
Excise Duties					
Spirits and Beer	179.6	193.1	199.5	219.3	215.0
Cigarettes, Tobacco and Cigars	141.2	146.2	150.3	158.3	169.0
Less Refunds	- 4.1	- 4.1	- 4.9	- 4.6	- 4.0
TOTAL	316.7	335.2	344.9	363.0	380.0
Sales Tax c/	694.5	732.7	720.6	774.0	813.0
Other Excise Taxes					
Automobiles	59.3	64.3	59.6	25.4	-
Cigarettes, Tobacco and Cigars	148.0	185.5	193.8	221.7	211.0
Television Sets, Radios and Phonographs	17.8	17.8	16.0	17.6	19.0
Other	18.1	20.3	22.3	22.3	21.0
Less Refunds	- 2.6	- .4	-1.0	-11.0 d/	- 1.0
TOTAL	240.6	287.5	290.7	276.0	250.0
Customs Import Duties	486.5	525.7	498.7	539.0	550.0
Other Taxes	1.2	-	-	-	-
TOTAL TAXES	4,247.4	4,752.3	5,015.8	5,157.0	5,155.0
NON-TAX REVENUE					
Post Office	157.5	167.6	173.6	180.0	190.0
Return on Investments	221.2	239.7	283.8	305.0	295.0
Other	128.6	130.2	144.5	130.0	140.0
TOTAL	507.3	537.5	601.9	615.0	625.0
TOTAL BUDGETARY REVENUE	4,754.7	5,289.8	5,617.7	5,772.0	5,780.0
OLD AGE SECURITY TAX REVENUE					
Personal Income Tax	146.4	185.6	229.4	259.0	264.0
Corporation Income Tax	55.3	91.3	103.5	100.0	103.0
Sales Tax	173.6	270.0	270.2	290.0	305.0
TOTAL	375.3	546.9	603.1	649.0	672.0

a/ Preliminary. b/ Budget forecast (detailed breakdown is our estimate). c/ Excludes Old Age Security Tax Revenue.
d/ Mainly automobile tax refunds. Sources: Budget Speech, Budget Papers, Public Accounts.

* Reproduced from the Canadian Tax Foundation Publication "The National Finances", 1962-63, page 7.

TABLE XLIII

BUDGETARY EXPENDITURE
BY DEPARTMENT AND PRINCIPAL ITEMS
FISCAL YEARS 1959 to 1963 *
($MILLION)

	1959	1960	1961	1962 a/	1963 b/
NATIONAL DEFENCE					
Naval Services	213.9	255.8	245.5	262.9	282.2
Army Services	370.6	400.8	402.2	447.8	465.9
Air Services	624.4	728.4	751.6	778.6	765.7
Mutual Aid	70.7	18.4 i/	14.6 i/	10.2 i/	30.3 i/
Other (excl. Civil Defence)	145.1	111.5	101.3	118.8	126.9
TOTAL c/ (excl. Civil Defence)	1,424.7 g/	1,514.9	1,515.3	1,618.3	1,671.0
CIVIL DEFENCE d/	3.9	4.4	5.9	9.0	16.6
DEFENCE PRODUCTION	13.9	17.6	20.4	24.7	26.2
PUBLIC DEBT CHARGES	648.0	783.5	797.6	839.7	788.2
SELECTED PAYMENTS TO PROVINCES -					
Federal-Provincial Fiscal Arrangements	423.1	485.4	504.9	502.7	234.6
Share of Income Tax on Power Utilities	8.7	4.8	4.2	6.4	6.5
Subsidies	20.6	20.7	20.7	23.5	23.5
Special Grants to Newfoundland	14.6 h/	8.0	8.0	8.0	-
TOTAL c/	467.0	518.9	537.8	540.6	264.6
HEALTH AND WELFARE -					
Hospital Insurance	54.7	150.6	189.4	284.0	325.0
Family Allowances	474.8	491.2	506.2	520.9	536.0
Old Age Assistance	30.2	30.3	30.7	30.7	30.6
Blind Persons Allowances	4.2	4.2	4.2	4.1	4.1
Disabled Persons Allowances	15.3	16.1	16.4	16.2	16.3
Unemployment Assistance	23.9	40.2	51.5	88.0	88.3
Old Age Security Fund Deficit	184.0	-	-	-	-
General Health Grants	45.9	46.0	48.0	49.0	51.0
Other (excl. Civil Defence)	36.1	35.5	37.8	40.5	48.1
TOTAL c/ (excluding Civil Defence)	869.1	814.1	884.0	1,033.4	1,099.4
VETERANS AFFAIRS -					
Pensions	150.7	149.7	150.7	177.6	176.5
Treatment and Welfare Services	119.8	120.3	123.4	139.5	147.0
Re-establishment Credits, Gratuities, etc	12.0	11.9	11.4	10.1	6.1
Other	6.3	6.4	6.7	6.9	6.0
TOTAL c/	288.8	288.3	292.3	334.1	335.6

continued .....

TABLE XLIII

BUDGETARY EXPENDITURE
($ Million)

	1959	1960	1961	1962 a/	1963 b/
TRANSPORT					
Canals and Marine Services	61.5	59.1	49.1	52.6	70.7
Air Services	115.4	124.1	133.9	152.0	167.1
Railway and Steamship Services e/	84.6	77.9	106.5	107.6	46.9
Freight Rate Subsidies j/	13.1	22.1	34.4	82.3	14.0
Other	14.2	13.2	12.6	21.9	28.8
TOTAL c/	288.8	296.5	336.4	416.4	327.5
LABOUR					
Unemployment Insurance Commission	72.4	81.6	97.2	102.7	106.6
Other	14.4	21.3	24.1	85.4	113.1
TOTAL c/	86.8	102.9	121.3	188.1	219.7
AGRICULTURE f/	208.6	227.4	264.9	289.3	168.0 k/
POST OFFICE	157.8	165.8	178.4	188.6	192.0
PUBLIC WORKS	226.1	217.9	200.9	193.4	217.5
GOVERNMENT CONTRIBUTION TO SUPERANNUATION ACCOUNT	37.7	40.0	41.4	46.9	50.2
OTHER	685.6	710.6	761.5	840.9	899.7
TOTAL BUDGETARY EXPENDITURE c/	5,364.0	5,702.9	5,958.1	6,563.4	6,276.2 m/
OLD AGE SECURITY FUND EXPENDITURE	559.3	574.9	592.4	625.0	736.0

a/ Preliminary. b/ Main estimates. c/ Does not necessarily add owing to rounding of figures. d/ Includes expenditures of Departments of National Defence, National Health and Welfare and Privy Council. e/ Includes following deficits of C.N.R. and T.C.A. 1959, $51.6 million; 1960, $43.6 million; 1961, $70.1 million; 1962, $73.8 million (preliminary); 1963, no privision made but deficits "to exceed $50 million" (Budget Speech). f/ Figures prior to 1962 revised to allow for transfer of various activities to and from other departments. g/ After charging $211.7 million to Defence Equipment Account. h/ Includes additional grants for both 1957-58 and 1958-59. i/ Since 1960 the cost of equipment transferred from service stocks for Mutual Aid and NATO aircrew training expenditures have been charged to the service concerned. Total Mutual Aid expenditures for 1960 were $40.8 million; 1961, $50.3 million; 1962 (Estimates), $40.8 million; 1963 (Estimates), $35.8 million. j/ Includes subsidies under Maritime Freight Rates Act and these amounts under Freight Rates Reduction Act; 1960, $7.8 million; 1961, $20.4 million; 1962, $20 million (preliminary). 1962 figure also includes $50 million for interim subsidies related to recommendations of the Royal Commission on Railway Problems. k/ Does not include any provision for losses of Agricultural Stabilization Board, Agricultural Products Board, or Prairie Farm Emergency Fund which totalled $77.4 million in 1961-62 (preliminary). Does not include acreage payments to western grain producers which totalled $41.3 million in 1959; $40.5 million in 1961; and $40.5 million in 1962 (preliminary). m/ Forecast in Budget Speech at $6,525 million after allowing for Supplementary Estimates.

Sources: Compiled from Budget Papers; Estimates and Public Accounts.

* Reproduced from the Canadian Tax Foundation Publication "The National Finances" 1962-63, page 8.

SCHEDULE "A"

Summary of Recommendations
by
THE ROYAL COMMISSION
on
CO-OPERATIVES

A. Co-operatives

(In this section the word "customer" shall be deemed to include shippers and suppliers as well as purchasers where the context requires.)

(1) That section 4, paragraph (p), of the Income War Tax Act be repealed.

(2) That the Income War Tax Act and The Excess Profits Tax Act be amended to provide for the taxation of co-operative associations and organizations on the same basis as other persons in accordance with the recommendations which follow.

(3) That co-operative associations and organizations, joint stock companies, partnerships, and other bodies and persons shall be allowed to deduct, in computing taxable income, such amounts as patronage bonuses, patronage dividends, refunds of excess handling charges, discounts rebates and other similar amounts which are paid or credited to their customers, in proportion to the quantity, quality or value of goods acquired, marketed or sold or services rendered; provided that:

(a) such amounts are paid in cash or its equivalent within six months after the annual meeting of the relevant fiscal period of the association, organization or company and within six months after the end of the relevant fiscal period of other businesses; or alternatively, that they are credited within the same period to each customer and exigible by him on giving such notice as may be deemed reasonable (Appendix D).

(b) the statute or statutes under which any such co-operative association or organization is incorporated or registered, or its bylaws, or a contract with its customers, hold forth the prospect that payments will be made in proportion to patronage.

(c) the company or other person holds forth the prospect that payments will be made in proportion to patronage.

(d) payments in proportion to patronage shall be at the same rate to all customers with respect to the same type or class of commodities, goods or services, with allowance for differentiation in class, grade or quality where appropriate.

(4) That deductions from the gross proceeds of a customer's products be excluded from the income of the association, organization or other business, if applied against an obligation incurred by such customer to purchase shares, or to make other investment in the association; or if credited to the customer, and exigible by him on giving

such notice as may be deemed reasonable. (Appendix D).

(5) That amounts credited in proportion to patronage and deductions from the gross proceeds of sale of the customer's products, which were not deductible for tax purposes when credited or deducted shall, nevertheless, be allowed as a deduction in the period during which they are paid to the customers.

(6) (a) That interest, on any form of investment in, or loan to, the association or other taxpayer having a fixed date of maturity, be allowed as a deduction, provided such interest is exigible annually by the claimant or creditor at the rate fixed at the time such investment or loan was made.

(b) That interest, on any form of investment or loan which is withdrawable on giving such notice as may be deemed reasonable (Appendix D), be allowed as a deduction if exigible by the claimant or creditor at a rate fixed in advance.

(7) That a newly formed association which obtains incorporation or registration under provincial co-operative legislation, or is incorporated as a co-operative under Dominion authority, for the purpose of producing and/or marketing natural products of its members or customers and/or of purchasing supplies, equipment, household necessities or services, for its members or customers and which is not owned or controlled, directly or indirectly, by an existing association, or a group of existing associations, shall, with the consent of the Minister, be exempt from income tax for its first three fiscal periods following the commencement of operations. An association claiming such relief should, nevertheless, be required to file annual returns in accordance with Part V of the Income War Tax Act in such form as may be determined by the Minister.

(8) That section 4, paragraph (y) of the Income War Tax Act be amended, if necessary, to include associations incorporated or registered under provincial co-operative legislation for providing co-operative housing service.

(9) That associations incorporated or registered under provincial co-operative legislation, or incorporated as a co-operative under Dominion authority, for the purpose of providing telephone services, distribution of electric power, or medical and hospital services, be exempt from income and excess profits taxes.

(10) That the Minister be given power to require all persons to make such annual returns of "patronage dividends" declared, or "deductions" made, as may be deemed desirable.

B. Credit Unions

(1) That the income of credit unions or caisses populaires continue to be excepted from taxation under section 4, paragraph (q) of the Income War Tax Act.

(2) That section 4(q) of the Income War Tax Act be amended to make it clear:

(a) that it includes federations whose membership may comprise other credit unions, co-operative

associations, parishes, school districts and other similar bodies.

(b) that organizations excepted thereunder must derive their revenues primarily from loans made to members.

C. Mutual Insurance Organizations

We therefore recommend as follows:

(1) That the Income War Tax Act and The Excess Profits Tax Act (1940) be amended to provide for the taxation of mutual organizations carrying on the business in Canada, of fire, casualty and automobile insurance, in accordance with the recommendations which follow.

(2) That dividends on, or refunds of premiums to policyholders, whether paid in cash or applied against renewal premiums, together with any unabsorbed premiums or premium deposits returned to or payable to policyholders, and any other amount credited to a policyholder or subscriber in such a way that it is exigible by him on giving such notice as may be deemed reasonable, be allowed as a deduction in computing taxable income.

(3) That joint stock companies and other insurers writing fire, automobile and casualty insurance, which pay dividends or make refunds of premiums to policyholders be allowed to deduct such dividends or refunds in computing taxable income.

(4) That before giving effect to the foregoing recommendations the incidence of the tax on net premiums of mutual insurance organizations under the Special War Revenue Act, the exemption from taxation granted to marine insurance companies, and the treatment for income tax purposes of investment income in Canada accruing to British and foreign insurance companies, should be reviewed by the Government;

(5) That the income of any insurer, mutual or otherwise, shall not be liable to taxation when in any year the net premium income in Canada is derived, to the extent of not less than 50% thereof, from the insurance of farm property and other property not protected by municipal or other fire fighting organizations, or is derived wholly from the insurance of churches, schools or other religious educational and charitable institutions.

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SCHEDULE "B"

CANADIAN INCOME TAX ACT
1961 Edition

Section 62 (Page 146) - - EXEMPTIONS

Section 62 (1)

(1) No tax is payable under this Part upon the taxable income of a person for a period when that person was

Section 62 (1) (k) (Pages 149, 150)

(k) CREDIT UNIONS - a corporation or association incorporated or organized as a credit union or co-operative credit society if

(i) it was restricted to carrying on business in one province and it derived its revenue primarily from

(A) loans made to, or cashing cheques for, members residing within the province,

(B) bonds of, or guaranteed by, the government of Canada or a province, or

(C) loans made to a co-operative credit society of which it is a member, or

(ii) the members thereof were corporations or associations

(A) incorporated or organized as credit unions substantially all of which derived their revenues primarily from loans made to members or from bonds of, or guaranteed by, the Government of Canada or a province

(B) incorporated, organized or registered under provincial co-operative legislation or governed by such legislation, or

(C) incorporated or organized for charitable purposes,

or were corporations or associations no part of the income of which was payable to, or otherwise benefited personally, any shareholder or member thereof;

Section 73 (Pages 179, 180) -- CO-OPERATIVES

Section 73 (1)

(1) 3-year exemption. No tax is payable under this Part upon the taxable income for each of the first 3 taxation years after commencement of its business of a corporation that commenced business on or after January 1, 1947, and that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers, if, during the taxation year,

(a) the statute under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held forth the prospect that payment would be made to them in proportion to patronage.

(b) none of its members had more than one vote in the conduct of the affairs of the corporation,

(c) at least 90% of its members are individuals and at least 90% of its shares, if any, are held by individuals,

(d) the rate of interest on capital subscribed by its members or the rate of its dividends on its shares did not exceed 5% per annum.

(e) the value of the products marketed for or acquired from, supplies, equipment and household necessaries purchased for or sold to, and services performed for, its customers other than members did not exceed 20% of the total thereof for all its business, and

(f) the business carried on by the corporation was not a continuation of a previous business in which a substantial number of its members had a substantial interest, either as shareholders of a corporation carrying on the previous business or otherwise.

Section 73 (2)

(2) NON-APPLICATION OF PAR. (a), ss. (2), Sec. 81. Paragraph (a) of sub-section (2) of section 81 does not apply where the corporation that redeemed or acquired its common shares or that reduced its common stock is a corporation that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers.

Section 73 (3)

(3) PROVINCIAL GRANT. Where a corporation that was incorporated under provincial legislation respecting the establishment of co-operative corporations for the purpose of marketing (including processing incident to or connected therewith) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers has received a grant from the government of a province that was not fixed by reference to natural products marketed, supplies, equipment or household necessaries purchased or sold or services performed by it,

(a) no amount shall be included in respect of the grant in computing the corporation's income for any year, and

(b) paragraph (h) of subsection (6) of section 20 is not applicable in respect of any property in respect of or for the acquisition of which it was received.

Section 75. (Pages 181, 182, 183, 184)

PATRONAGE DIVIDENDS

Section 75 (1)

(1) Deduction in computing income. Notwithstanding anything in this Part, there may be deducted, in computing income

for a taxation year, the aggregate of the payments made, pursuant to allocations in proportion to patronage, by a taxpayer.

(a) within the year or within 12 months thereafter to his customers of the year, and

(b) within the year or within 12 months thereafter to his customers of a previous year, the deduction of which from income of a previous taxation year was not permitted.

Section 75 (2)

(2) Limitation where non-member customers. Notwithstanding sub-section (1), if the taxpayer has not made allocations in proportion to patronage in respect of all his customers of the year at the same rate, with appropriate differences for different types or classes of goods, products or services, or classes, grades or qualities thereof, the amount that may be deducted under this section is an amount equal to the lesser of

(a) the aggregate of the payments mentioned in subsection (1), or

(b) the aggregate of

(i) the part of the income of the taxpayer for the year attributable to business done with members, and

(ii) the allocations in proportion to patronage made to non-member customers of the year.

Section 75 (3)

(3) Limitation by reference to capital employed. Where the deduction of an amount under subsection (1) or (2) would result in the taxpayer's taxable income for the taxation year (before deduction of any amount under section 27 in respect of business losses) being less than the amount by which

(a) 3% of the capital employed in the business at the commencement of the year,

exceeds

(b) the interest, if any, paid on borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (k) of subsection (1) of section 62) and deductible in computing his income for the year,

the amount that may be deducted under this section is such as will leave the taxpayer with a taxable income (before deduction of any amount under section 27 in respect of businesses losses) equal to the excess.

Section 75 (4)

(4) Definitions. For the purposes of this section,

(a) "allocation in proportion to patronage" for a taxation year means an amount credited by a taxpayer to a customer of that year on terms that the customer is entitled to or will receive payment thereof, computed at a rate in relation to the quantity, quality or value of the goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of,

or to the customer, whether as principal or as agent of the customer or otherwise, with appropriate differences in the rate for different classes, grades or qualities thereof, if

(i) the amount was credited

(A) within the year or within 12 months thereafter, and

(B) at the same rate in relation to quantity, quality or value aforesaid as the rate at which amounts were similarly credited to all other customers of that year who were members or to all other customers of that year, as the case may be, with appropriate differences aforesaid for different classes, grades or qualities, and

(ii) the prospect that amounts would be so credited was held forth by the taxpayer to his customers of that year who were members or non-member customers of that year, as the case may be;

(b) "capital employed in the business" shall be computed in accordance with the First Schedule to The Excess Profits Tax Act, 1940, except that no deduction shall be made from capital in respect of borrowed moneys (other than moneys borrowed from a bank incorporated under the Bank Act or from a corporation or association described in paragraph (k) of subsection (1) of section 62);

(c) "customer" means a customer of a taxpayer and includes a person who sells or delivers goods or products to the taxpayer, or for whom the taxpayer renders services;

(d) "consumer goods or services" means goods or services the cost of which was not deductible by the taxpayer in computing the income from a business or property;

(e) "income of the taxpayer attributable to business done with members" of any taxation year means that proportion of the income of the taxpayer for the year (before making any deduction under this section) that the value of the goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for members, is of the total value of goods or products acquired, marketed, handled, dealt in or sold or services rendered by the taxpayer from, on behalf of, or for all customers during the year;

(f) "payment" includes

(i) the issue of a certificate of indebtedness or shares of the taxpayer or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation if the taxpayer or that corporation has in the year or within 12 months thereafter disbursed an amount of money equal to the aggregate face value of all certificates or shares so issued in the course of redeeming or purchasing certifcates of indebtedness or shares of the taxpayer or that corporation previously issued.

(ii) the application by the taxpayer of an amount to a member's liability to the taxpayer (including, without restricting the generality of the foregoing, an amount applied in fulfilment of an obligation of the member to make a loan to the taxpayer and an amount applied on account of payment for shares issued to a member) pursuant to a by-law of the taxpayer, pursuant to statutory authority or at the request of the member, or

(iii) the amount of a payment or transfer by the taxpayer that, under subsection (1) of section 16, is required to be included in computing the income of a member;

(g) "member" means a person who is entitled as a member or shareholder to full voting rights in the conduct of the affairs of the taxpayer (being a corporation) or of a corporation of which the taxpayer is a subsidiary wholly-owned corporation; and

(h) "non-member customer" means a customer who is not a member.

Section 75 (5)

(5) Holding forth prospect of allocations. For the purpose of this section a taxpayer shall be deemed to have held forth the prospect that amounts would be credited to a customer of a taxation year by way of allocation in proportion to patronage, if

(a) throughout the year the statute under which the taxpayer was incorporated or registered, its charter, articles of association or by-laws or its contract with the customer held forth the prospect that amounts would be so credited to customers who are members or non-member customers, as the case may be, or

(b) prior to the commencement of the year or prior to such other day as may be prescribed for the class of business in which the taxpayer is engaged, the taxpayer has published an advertisement in prescribed form in a newspaper or newspapers of general circulation throughout the greater part of the area in which the taxpayer carried on business holding forth that prospect to customers who are members or non-member customers, as the case may be, and has filed copies of the newspapers with the Minister before the end of the thirtieth day of the taxation year or within 30 days from the prescribed day,as the case may be.

Section 75 (5a)

5(a) Saving provision. For the purposes of subsection (3), "3% of the capital employed in the business at the commencement of the year" means, in any case where the taxation year of the taxpayer is less than 12 months, that proportion of 3% of the capital so employed at the commencement of the year that the number of days in the year is of 365.

Section 75 (6)

(6) Customer's income. Where a payment has been received by a taxpayer in respect of an allocation in proportion to patronage (other than an allocation in respect of consumer goods or services), the amount thereof shall be included in computing the recipient's income for the taxation year in which the payment was received and, without restricting the generality of the foregoing, where a certificate of indebtedness or a share was issued to a person in respect of an allocation in proportion to patronage, the amount thereof shall be included in computing the recipient's income for the taxation year in which the certificate or share was received and not in computing his income for the year in which the indebtedness was subsequently discharged or the share was redeemed.

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SCHEDULE "C"

LOANS OR GUARANTEES BY VARIOUS CO-OPERATIVES TO
THE CO-OPERATIVE FIRE AND CASUALTY COMPANY

SCHEDULE

Alberta Poultry Marketers Co-operative Limited EDMONTON, Alberta	$ 8,000.00
Alberta Wheat Pool, CALGARY, Alberta	100,000.00
British Columbia Co-operative Wholesale Society, BURNABY, British Columbia	12,600.00
Co-op Vegetable Oils Ltd., ALTONA, Manitoba	7,200.00
Federated Co-operatives Limited, SASKATOON, Saskatchewan	280,000.00
La Federation des Caisses Populaires Acadiennes Limitee, CARAQUET, New Brunswick	25,000.00
Manitoba Pool Elevators, WINNIPEG, Manitoba	50,000.00
Maritime Co-operative Services Limited, MONCTON, New Brunswick	100,000.00
Northern Alberta Dairy Pool Ltd., EDMONTON, Alberta	37,000.00
Nova Scotia Credit Union League, ANTIGONISH, Nova Scotia	50,000.00
Saskatchewan Wheat Pool, REGINA, Saskatchewan	135,000.00
United Farmers of Alberta Co-operative Limited, CALGARY, Alberta	57,500.00
TOTAL	$862,300.00